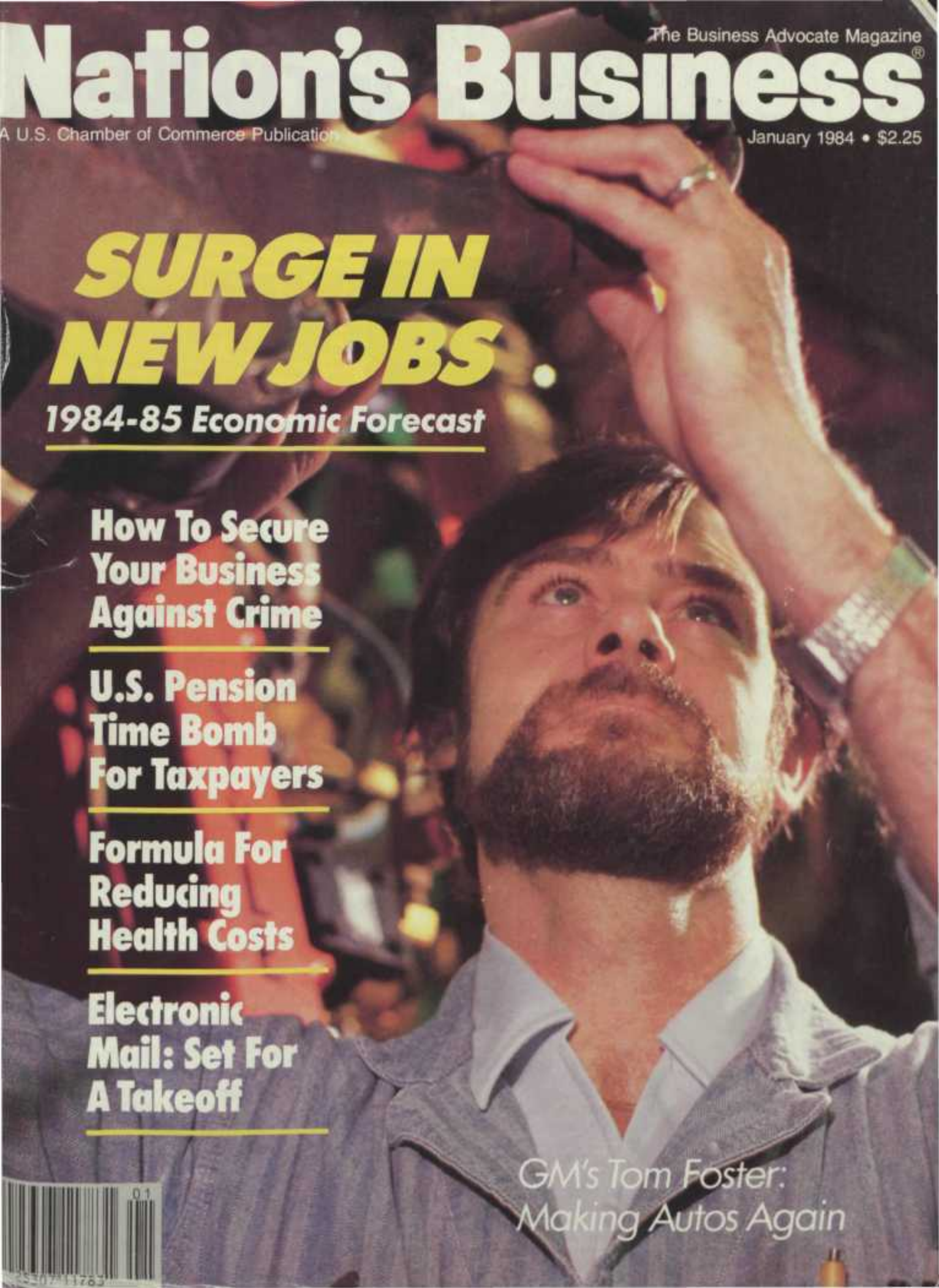
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PHOTO: DAVID VALDEZ



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PHOTO: B.J. HOFFMAN



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BY JAMES J. KILPATRICK

Congress, Singular and Plural

IT IS A FUNNY THING about the United States Congress. I have been covering this outfit closely for almost 20 years. In that time I have observed members on the floor, I have listened to members in committee, I have visited with members in their offices, and a good many times, after 5 o'clock in the afternoon, I have joined members at a nearby club the better to strike a blow for liberty. This is the curious thing: Taken individually, members of the United States Congress include some of the most dedicated, intelligent, hardworking, conscientious men and women you ever are likely to meet.

Individually, they are wonderful.

Collectively, they are the biggest bunch of turkeys around.

I venture that long-considered judgment in the wake of the first session of the 98th Congress. In some ways it was better than other sessions: The House and Senate did do something constructive about the mess they had made of Social Security; they finally rose to the necessity of fixing a new debt limit; they managed to pass 10 of the 13 regular appropriation bills; and they suppressed their lust for demagoguery long enough to take care of the International Monetary Fund. Because an act that is not done is often better than an act that is done, one more accomplishment should be mentioned: The House refused in November to revive the proposed Equal Rights Amendment to the Constitution.



For all the good they did, they might better have stayed at home.

That is it. That is the whole works, the bottom line, the sum total of worthwhile achievement. The Senate spent 1,006 hours in session, the House 851 hours; members introduced 8,434 bills and resolutions, they filled 33,800 pages of the *Congressional Record*, and they took 678 roll-call votes. For all the good they accomplished, they might better have stayed at home.

The failures were not small failures. Let me cite only a few areas by way of example.

The deficits. Every one of the 535 members knows that something constructive has to be done about these recurring federal deficits. So long as the deficits persist, creating a fear that interest rates will rise again, our economic recovery is bound to be limited. The deficits can be brought down only by increasing income or by decreasing outgo, or by a combination of both. Individually a few members worked hard at this problem. Collectively the Congress fumbled, bumbled and stalled. The performance in this critical area can be summed up in a word: disgraceful.

Immigration. Over the nation as a whole, and especially in the Southern and Southwestern states, the social, economic, political and legal turbulence created by illegal immigrants is profoundly disturbing. The Senate rose to the necessity and by overwhelming vote passed the Simpson-Mazzoli bill. The bill has its faults: It lays heavy burdens upon employers, especially small employers, and it could cause some loss of employment among Hispanics. But the bill was the best compromise that could be found, and its amnesty provisions would have offered a compassionate solution to some difficult human perils. Responding to an imperial decree from Speaker Thomas P. O'Neill, the House refused to act.

Bankruptcy. Back in 1978, Congress created more than 200 new bankruptcy courts, to be presided over by judges with broad authority but with limited terms in office. Warnings were voiced at the time that the act breached Article III of the Constitution, and such proved to be the case. In June, 1982, the Supreme Court held the act void and gave Congress six months to correct the flaws. But Congress dallied through 1982, and now Congress has dallied through all of 1983, and the dangerous situation remains unchanged. No one knows whether orders entered in bankruptcy proceedings are valid. The possibilities for chaos are not fantasies; they are real.

I had intended to note the failure of Congress to deal with reform of the criminal code. I have some notes left over on what the irresponsibility of the first session has done to state highway construction. Nothing was done on hazardous wastes. The dairy bill that finally was sent to the President will have little effect on the lunatic situation that now obtains.

"As we leave Washington," said Dan Rostenkowski, "word of our impotence will precede us." The chairman of the House Ways and Means Committee will rarely speak a truer word. Back in the boondocks, the American people have had a depressing glimpse of a Congress so paralyzed by partisan politics, so submissive to special interests, so lacking in statesmanlike leadership that it is incapable of acting in the public good. It costs $1.6 billion a year to maintain the legislative branch. Based on its 1983 performance, we are getting a lousy buy for our money. □

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Children as Tax Shelters

By Gerald W. Padwe, C.P.A.

Start the New Year with a multiple-choice quiz. Pick one or more of the following. Your children are:

- The joy of your later years.
- A never-ending drain on your pocketbook.
- A tax shelter.

Personal predilections will determine your responses to the first two. But it is undeniably true that, with a little planning, children can be a tax shelter of sorts—and, we trust, a better investment than many of the so-called shelters marketed each December.

The key is progressive income tax rates. Shifting the same dollar of added income from a high- to a lower-bracket individual cuts substantially the tax on that dollar.

But remember this: Income is taxable to the person who earns it. Simply transferring that income to a lower-bracket person, such as a minor child or aging parent, does not decrease tax liability. To do that, title to the income-producing assets must also be shifted.

Once that is done, less of the income will be lost to taxes, and more will remain to cover such costs as educating that child or caring for that parent.

There are two ways to transfer earning power. The simplest is a trust, which is most useful in planning for the long term. The other is an interest-free loan. Here are details:

A Trust

Shifting income-producing property to the beneficiary is the most direct way to transfer earning power, but it could have disadvantages.

The end goal might be financing a college education for the child now in grammar school or assuring care for a parent lacking financial experience. Rather than put large sums directly into the hands of such individuals, the person shifting income usually does so by establishing a trust.

A trustee can manage the assets and make payments on behalf of the beneficiaries. In some cases, the trustee can also return the income-producing assets to the donor once the purposes of the transfer have been achieved. (For tax reasons, the person providing assets and the trustee should not be the same person.)

Remember that, in transferring property in trust to earn income for a lower-bracket taxpayer, a donor is making a gift. The gift is either the property itself or its income over the life of the trust. That life must be at least 10 years if income is to be transferred for tax purposes.

Although gifts generally are taxable to the giver, there is an annual exclusion of up to $10,000 on a donor's gifts per donee. It is possible to bring most trusts under that exclusion and avoid gift taxes.

Another point to keep in mind: New Internal Revenue Service present-value tables increase markedly the valuation of some gifts for tax purposes. But gifts put into trusts for income-shifting purposes should still have significant tax advantages.

Loans

The trust approach is most often used when the goal is accumulating earnings over a long term.

When funds are needed relatively soon, however, a popular procedure is an interest-free loan, payable on demand. The recipient deposits the funds and can spend the interest earned.

A series of court decisions have held that an interest-free loan is not a taxable gift. The Supreme Court should rule on the question in its current term.

Since current law permits each parent to give each child up to $10,000 without incurring gift taxes, the interest-free loan will be viable even if the Supreme Court rules that earnings on such loans are subject to gift taxes. The annual interest on a $100,000 loan when the prevailing rate is 10 percent is $10,000—the amount of the exclusion. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director–tax practice for Touche Ross & Co.*

New Insurance Rules

Employers may need to review programs providing life insurance coverage for workers.

The Internal Revenue Service this month implements rules designed to prevent discrimination toward categories of employes in providing group-term coverage under company policies.

The cost of the first $50,000 of employer-paid life insurance has long been excluded from the covered worker's taxable income. The cost of coverage above that amount is taxable to the worker on a graduated basis specified in IRS tables.

Under the new rules, however, "key employes" are denied the $50,000 exclusion if the company plan favors them. Key employes generally would be officers and certain employe-shareholders. Discrimination in favor of such employes could occur in eligibility standards for participation in the program or in the scope of benefits provided.

A company plan will meet the IRS test of nondiscrimination if:

- At least 70 percent of all employes are covered, or
- At least 85 percent of all participants in the plan are not key employes.

For the most part, group-term coverage will meet the IRS standard if benefits provided for all covered employes are the same. A plan will not, however, be considered discriminatory merely because the amount of benefits is linked to pay levels.

The same 1982 law that provided for the new guidelines also directed IRS to update its tables on employe tax obligations incurred when coverage exceeds $50,000 (see "For Your Tax File," October, 1983). The revised tables, recently issued in final form, also specify tax liabilities of key employes denied any exclusion because their company's plan is discriminatory under the new standards.

WASHINGTON LETTER

▶ UNEMPLOYMENT RATE IS FALLING FASTER than in any of past seven postwar economic upturns. By year's end, about 8 percent of work force was seeking jobs, down from December, 1982, peak of 10.8 percent. Decline of over 20 percent means about 2.7 million went back to work in first 12 months of recovery. Some forecasters now predict unemployment rate of 7.5 percent by election day. This is same level it was when Ronald Reagan was elected President.

▶ FEDERAL BUDGET DEFICIT PROJECTIONS are being pared as employment grows. Each percentage point drop in jobless rate means $25 billion to $30 billion reduction in deficit. This is due to combination of lower outlays to aid unemployed, higher tax collections. During one recent month, budget deficit was running at estimated $150 billion annual rate, down from last year's $195 billion figure. Under current fiscal policies, budget is growing at 6 percent rate, down from 17.4 percent level in 1980.

▶ CONGRESS IS DUE BACK AT WORK January 23, but it faces shortened work year. National political conventions mean July, August are vacation months. With usual home-district work periods, holidays, recesses, etc., lawmakers will have 69 legislative days to get their work done. Unfinished business should dominate this year's session, leaving little time for new business after consideration of 1985 federal budget. Topping list of unfinished business are technical tax code changes; long-distance telephone access fees; natural gas deregulation; bankruptcy legislation; interstate highway funding; banking deregulation; an end to sex differentiation in insurance, pensions; criminal code overhaul; immigration reform; creation of Department of International Trade and Industry. Congress watchers expect partisan politics to dominate session, with little being accomplished after end of May.

▶ INFLATIONARY PRESSURES ARE SUBDUED, with some indicators of present, future price rises at levels not seen since mid-1960s. Consumer prices have been rising at 2.9 percent annual rate, lowest since 1.9 percent in '64. Producer prices are up 1.4 percent over recent 12-month period, best since .5 percent rise in '64. Annual rise in private industry wages--5 percent through last September--is lowest since 1976, when Labor Department started collecting data. As recently as September, 1980, wages were increasing nearly twice as fast.

▶ BIGGEST SURPRISE of recovery has been high level of growth in interest-sensitive business fixed investment, despite high interest rates. Investment grew 5.5 percent in first nine months of recovery; that's average for all postwar recoveries. White House chief economist Martin Feldstein attributes strong showing of this key indicator of future growth to 1981 tax cuts that liberalized depreciation rules. Sharp drop in inflation has also reduced taxation of overstated business income.

▶ OUTCOME OF MAJOR collective bargaining agreements this year covering 3 million of 7.9 million private industry workers in large units may influence future labor cost pressures--businesses' biggest expense. Contracts covering petroleum, construction, railroads, retail food, auto and coal industries are major ones to be negotiated. Wage hikes due in 1984 average 4.2 percent--for workers with in-

creases delayed by recession--lowest jump since 1970, when Labor Department began collecting this data. Moderate wage gains still exceed low inflation rate.

▶ EMPLOYERS IN 13 STATES, District of Columbia, Puerto Rico, Virgin Islands must pay federal payroll tax surcharge of $12 to $77 per worker for 1983 because of defaults by state governments on federal unemployment loans. Penalty must be paid by end of January when last quarterly payroll tax payment is due.

▶ SHARPLY HIGHER BUSINESS PAYROLL TAXES are forecast if proposed legislation overhauling supplemental unemployment compensation program clears Congress. Bill introduced by Sens. Robert Byrd (D-W.Va.), John Heinz (R-Pa.) and six others would create permanent 35-week extension of benefits on top of regular benefits lasting 26 weeks. Business would pay 40 percent of costs. Measure would reverse 1981 reforms in jobless benefits aimed at bringing financial solvency to benefits trust fund.

▶ WASHINGTON/MOSCOW CRISIS CENTERS to reduce risk of nuclear exchange have been proposed by Sens. Sam Nunn (D-Ga.), John Warner (R-Va.). Proposal could lead to improvement in communications between capitals in periods of crisis caused by third nations or terrorist groups, sponsors say. Centers would be manned around-the-clock. Already, President Reagan has proposed to Soviets technical improvements in existing U.S.-U.S.S.R hotline.

▶ ENVIRONMENTAL LAWS EXPIRING this year will create logjam in congressional committees considering eight pieces of legislation affecting Environmental Protection Agency. Most likely to pass is Resource Recovery and Conservation Act; Senate proposal would require businesses to notify EPA of waste discharge of 220 pounds or more per month, while House version calls for notification at 55 pounds. Existing level is 2,200 pounds. Business opposes requirement because of paper work created. Next most likely to pass is renewal of Clean Water Act; it would extend current deadline for clean-up three years. Other legislation covers clean air, insecticides, fungicides, rodenticides, hazardous waste, safe drinking water. More than 100 hearings anticipated. Administrator William Ruckelshaus also plans review of risk assessment issues to decide if zero risk is worth the cost.

▶ SPECIAL PROBLEMS THAT SMALL BUSINESSES encounter in complying with environmental laws will be subject of Washington conference this year. Environmental Protection Agency and business groups representing smaller firms are sponsors. EPA says goal is to find ways to help those businesses remain competitive while meeting often-costly compliance requirements. Sponsors cite preponderance of smaller firms in such environmentally sensitive industries as leather tanning and finishing, metal molding and casting, dry cleaning. Details on the meeting are available from National Conference on Small Business Environmental Compliance, P.O. Box 57030, Washington, D.C. 20037.

▶ HUGE BUDGET DEFICITS will trigger resurgence of inflation, offering his party campaign opportunity to assail Reagan economic policies, says New York Gov. Mario Cuomo, who's already being mentioned for possible spot on '84 or '88 Democratic national ticket. His solution to red-ink spending: higher taxes, slower defense buildup, curbing of entitlement programs that benefit middle class. Cuomo says Democrats have to be honest about deficit problem.

▶ INTERNAL REVENUE SERVICE HAS UPDATED tables used in figuring tax employe owes on company-paid life insurance above $50,000 exclusion for all workers. Effect will be reduction in taxes owed by some, but not all, employes now taxed for such coverage. Status of employes under 35 will not be affected. Tax experts advise managers to check new tables before issuing W-2 forms this month. The new tables, which will cut taxable income to some employes by as much as 32 percent, use 1979 actuarial data extrapolated to 1982. The old tables, used since 1966, were based on 1959 data.

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SHARP

FROM SHARP MINDS
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Moving the United Nations?

James J. Kilpatrick is right ["Move the U.N.? Well, Why Not?," November]. We should move the United Nations, but not because it should fade into history. We should move the U.N. because the political value of having it in Manhattan is no longer worth the economic cost. The U.N. should move to Vienna, which has already built a complex complete with communications tower and mass transit facility.

STEPHEN A. THOMAS
Milwaukee

Kilpatrick urges throwing the United Nations out of the United States because it is failing to preserve peace in the world. Surely, Kilpatrick must know, as those of us who have been trying for years to strengthen the U.N. do, that the veto effectively prevented achieving that goal. As long as the major nations can veto any proposed action by the Security Council—and the United States was as insistent as any country upon the veto—the U.N. cannot maintain international peace or suppress acts of aggression.

GLENN L. MOLLER
St. Louis

I propose moving the U.N. permanently to Jerusalem, which should be designated an international city.

Jerusalem is more centrally located relative to world populations, member countries and political alignments. Jerusalem is historically significant to Christianity, Judaism and Islam. The presence of the U.N. might even contribute to resolving territorial disputes and achieving a permanent peace in the area.

EDWARD F. CULLITON
Arlington Heights, Ill.

The United Nations' headquarters in New York City serves only as a forum for the insulting anti-American hysterics of the Soviets, Third World popinjays, pistol-carrying little anarchists of the Palestine Liberation Organization and the bearded boor from Havana.

F.X. KEARNEY
Baltimore

Hong Kong might be an ideal location for the United Nations.

First, there are economic and political problems for the United States in allowing the United Nations to continue to be

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based in New York. Second, relocating the U.N. in Hong Kong would help to solve the current dispute between the United Kingdom and the People's Republic of China concerning sovereignty over the territory.

Third, Hong Kong would be able to preserve its financial and trading infrastructure and could assist the U.N. by providing funding for its services.

Finally, Hong Kong is part of one of the world's fastest growing economic areas, with over 50 percent of the world's population fairly close by.

DAVID J. BARRETT
Regional Officer, Far East
Combustion Engineering, Inc.
Stamford, Conn.

No policy, please

My first thought in reading "Sparks Fly Over Industrial Policy" [November] was of a statement in Jesse Helms' book *When Free Men Shall Stand*:

"We have more government than we want, more government than we need, and certainly more government than anyone is willing to pay for. All Americans who have swallowed the bait of government benefits need to be reminded that a government that is strong enough to give us everything we need is strong enough to take away everything we've got."

Why would any politician, labor leader or federal bureaucrat think that they could make better business decisions than business people?

I feel that anyone who believes in free enterprise should fight against an industrial policy as well as any other type of government control of business. Let's keep free enterprise free.

JOHN C. FRYE
Raleigh, N.C.

Natural gas mess

In the November Congressional Alert, you advocate natural gas deregulation, suggesting that deregulation ensures plentiful supplies and fair, competitive prices.

If you think that there is anything competitive about the natural gas industry, try changing your natural gas supplier. It's impossible.

Fair prices? Our public utilities commission has allowed prices to jump 80 percent with only partial deregulation. Most gas wells in our area are capped, waiting for total deregulation so that the gas will bring an even higher price. The supply is plentiful, yet the price keeps rising.

Only fools and politicians believe what you advocate. We at the grassroots level know better.

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OUTLOOK

SMALL BUSINESS

Making It Easier for Small Exporters



PHOTO: GARY KEEFER

The U.S. Chamber's Jeanne Morin and Carlo Gentilomo discuss the Eximbank.

With the 1983 trade deficit at a record $60 billion, the United States needs all the exports it can muster from small firms. But, most business organizations contend, small business' access to the export market is hampered by Export-Import Bank restrictions.

Carlo Gentilomo, a member of the U.S. Chamber of Commerce Small Business Council, says those restrictions must be modified because small exporting firms will be seeking financing from regional banks backed by the Export-Import Bank.

He explains that international and money center banks are generally not interested in supporting small business export activity. Such sales "are usually too small to attract their attention."

Gentilomo, who is president of Contact Systems Corporation, suggests that the Eximbank make three changes:

- Standardize its commercial risk insurance coverage at 90 percent for single-sale transactions up to $10 million.
- Expand regional banks' authority to approve Eximbank-backed credit for small exporters.
- Expand its lending program.

A Pilot Program For Minority Firms

The Department of Transportation is the testing ground for a recently launched program to make it easier for minority-owned small businesses to get federal contracts that require technical sophistication. Under the pilot program, authorized by Congress last July, the Small Business Administration can select DOT contracts it deems appropriate for fulfillment by minority-owned small firms under its existing 8(a) contract program.

Under that program, the SBA acts as prime contractor, securing contracts from other federal agencies and subcontracting them to small businesses owned by socially and economically disadvantaged persons, mostly from minorities.

DOT will furnish the SBA with budgetary data, procurement plans, forecasts and other information to aid the SBA in identifying suitable contracts. President Reagan has said that DOT was picked because of its "excellent record in awarding contracts under the traditional 8(a) program."

SBA Administrator James Sanders notes that the pilot program "offers a unique opportunity for minority firms to move up from contracts with limited growth potential and to perform more sophisticated and high tech federal work."

REAL ESTATE

A Bill To Smooth Out Condo Conversions

Are you interested in buying a condominium but finding that condo prices are prohibitive?

Some members of Congress want to change that.

Sen. John Tower (R-Tex.) has introduced a bill that could reduce condo prices and make it easier for tenants to purchase their apartments in condo conversions. A companion bill in the House, sponsored by another Texas Republican, Rep. Bill Archer, has been reported by the Ways and Means Committee.

The proposed Condominium Cost Reduction Act would encourage building owners converting apartments to condos to do so without involving third-party developers.

Currently, a building owner who sells apartments directly to individuals must pay taxes on the profits at regular income tax rates. This has led owners to sell their buildings to converters so they can pay the lower capital gains rate on their conversion profits.

The converter, who is taxed at the regular rate, often adds 15 to 30 percent to unit prices to realize a profit, and many tenants are left unable to purchase their apartments.

According to Tower, passage of his bill would "mean that as many as 25 to 30 percent more of the tenants in a building could afford to buy their apartments."

Enterprise Zones: One State's Success

Congress is lagging in enacting a national urban enterprise zone program to attract business to economically depressed neighborhoods—but Connecticut is not.

The state, first of 19 to enact enterprise zone legislation, attracted planned new investment of more than $62 million in six towns and cities under the program in 1983, its first year.

That money will finance 126 projects, including expanded factories, renovated stores and new and rehabilitated housing.

Approval of an urban neighborhood as an enterprise zone is based on such criteria as its poverty level, the amount of public assistance it receives, its unemployment rate and a demonstrated potential for stimulating new employment and investment.

Some of the business incentives include an 80 percent cut in local property taxes for five years (the state reimburses a city for 75 percent of the lost revenue), a $1,000 grant for each new job created and a 50 percent reduction annually in the state corporation tax for 10 years, provided that 30 percent of the firm's employes live in the zone.

These incentives generally are limited to manufacturing companies and distribution centers for manufactured goods on the wholesale level.

No federal legislation has yet been enacted, even though 230 members of the House are cosponsoring a bill that would create 75 special tax zones.

PHOTO: CONNECTICUT DEPARTMENT OF ECONOMIC DEVELOPMENT



Officials of New Britain, Conn., mark approval of an urban enterprise zone, one of six in the state.

Rehabilitation: An Idea Is Spreading

The Central Intelligence Agency does not talk about it, but the agency maintains a nondescript suite of offices in Arlington, Va., where employes addicted to alcohol and drugs are given intensive attention.

This rehabilitation program has special importance because many CIA employes deal with sensitive materials. But similar programs are being conducted quietly throughout the government—and the idea is spreading in private industry, thanks in part to health insurance coverage.

One insurer—Blue Cross and Blue Shield—recently completed demonstration projects among 44 employer groups in Albany and Philadelphia and throughout Alabama. It reports that early intervention at the work site helps keep trained workers on the job.

The demonstration projects embraced medications as well as individual and group psychotherapy, family counseling and physical testing. Blue Cross expects to have a nationwide program under way next July.

PHOTO: KRISTIN CALLAHAN



Jeff Goldsmith: "Tens of thousands" of hospital beds will be eliminated.

Cutting the Cost Of Hospital Care

Rising costs are among the reasons that "tens of thousands of beds will be taken out of service in hospitals," says Jeff C. Goldsmith, president of Health Futures, Inc.

Goldsmith is former chief planner of health and regulatory affairs at the University of Chicago Medical Center. Health Futures, which he founded in 1982, advises hospitals on how to survive money crises.

Such crises already have caused the closing of 35 hospitals in New York City during the past decade, Goldsmith says. He contends that demand for hospital beds is still growing in only a handful of cities: Dallas, San Antonio and Austin, in Texas, and Jacksonville and Tampa, in Florida.

Goldsmith uses sophisticated technology to diagnose hospitals' problems. For example, he observes them from helicopters, so that he can study surrounding traffic and housing patterns, and he compiles computerized profiles of patients' needs and available services.

One key change ahead, he says, is an emphasis on one-day surgery. He predicts that up to 40 percent of all patients facing the knife will be prepared for the operating room in their own doctors' offices and will return to their homes by evening.

What Comes After Clinch River's Defeat?

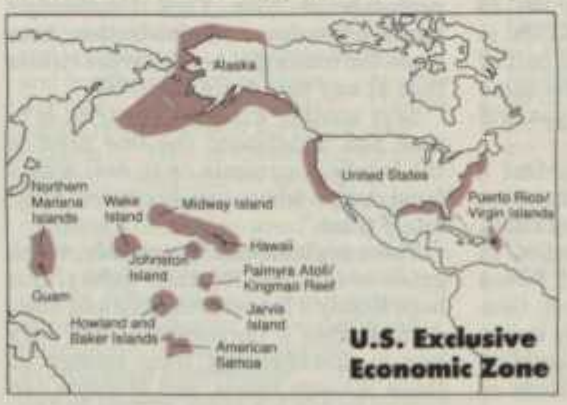
The Senate's refusal to fund completion of the Clinch River Breeder Reactor in Oak Ridge, Tenn., relegates the United States to a secondary role in the generation of nuclear energy, the project's backers say. The initiative now passes to France, Japan, the Soviet Union, Britain and Sweden, whose efforts to develop breeders continue.

Swayed by a coalition of antinuclear and cost-conscious lawmakers, the Senate voted last October, 56 to 40, to table a 1984 supplemental appropriations bill that would have provided $1.5 billion to complete the controversial plant. The government had already sunk $1.3 billion into the program.

The 10-year struggle to build the breeder reactor has ended, but nuclear power proponents have not surrendered their goal of breeding additional fuel as mined uranium is consumed.

"It's important to proceed with continuing research in developing breeder reactor technology to ensure future energy resources for America," says Sen. James McClure (R-Idaho), chairman of the Energy and Natural Resources Committee.

The Energy Department intends to restore the Clinch River site to its natural state and disassemble components of the unfinished reactor. But the department hopes to continue separate basic breeder research if Congress approves a $350 million appropriation.



The Wealth Hidden Beneath the Sea

Government marine geologists are scanning the ocean floor in the hope of expanding the nation's fuel and strategic metals base. It will be many years before the extraction of energy and minerals is economically feasible, but early assessments are encouraging.

The U.S. Geological Survey is beginning to map the 4 billion-acre United States Exclusive Economic Zone, an offshore region proclaimed by President Reagan to extend 200 miles out from all American territories. The Geological Survey vessel *S. P. Lee*, sailing a pole-to-pole course in the Pacific, will provide the first concrete measurements.

Says Survey Director Dallas Peck: "The EEZ provides the United States with a vast new frontier to study and understand and an immense region with potential resources of enormous economic importance to explore and develop."

An estimated 35 percent of the country's recoverable oil and gas lies within this zone, along with significant amounts of cobalt, manganese and nickel. Survey officials caution, however, that new technologies may be needed to extract the energy and mineral resources, many of which lie thousands of feet below water.

For more information on the program, write: Information Office, U.S. Geological Survey, 119 National Center, Reston, Va. 22092.

Those Tempting Municipal Bonds

By Ray Brady

THEY MILLED AROUND outside New York City's Madison Square Garden, many barking out angry statements to TV and print reporters. Some were housewives, others were retirees, still others working executives. All were among investors who had put more than $2 billion into Series 4 and 5 bonds of the Washington Public Power Supply System, known on Wall Street as Whoops, which defaulted several months ago.

Again and again, investors made the same point: They had bought the bonds because the interest was tax-free—Whoops paid a whopping 13 percent—and because they believed municipal bonds were an absolutely safe investment. Now it looked as if it would take many years and lawsuits for them to get their money back, if they ever did.

Heather Ruth, executive director of the Public Securities Association, says that, by and large, municipal bonds are indeed safe. As she puts it: "Over the last 40 years only two tenths of 1 percent of municipal bond securities outstanding have defaulted. That's a pretty remarkable record."

Yet the Whoops case points up a truth about such bonds: They are an appealing investment, but they are one that even many sophisticated investors do not clearly understand.

Their major appeal, of course, is their tax-free status. If you are in the 50 percent bracket and get, say, $5,000 in normal interest, you will pay out half of it in federal taxes. If you get the same return from a municipal bond, you will not pay a penny.

In choosing a bond you will find a bewildering array of 1.4 million issues of bonds outstanding, put out by cities, states and other government bodies. In the first half of 1983 alone, $45 billion worth of such bonds were issued. Generally the money from the bonds is earmarked for such projects as building bridges, water and sewer systems or schools.

The first thing to know about all these bonds is that there is no overall federal regulation—no Securities and Exchange Commission examining issues in the way corporate stocks and bonds are scrutinized (though the SEC is investigating the default in Whoops bonds, looking for evidence of securities fraud).

Second, not all tax-exempt bonds are alike. A general obligation bond's issuer is saying, in effect, that it will tax its citizens as much as necessary to pay off the debt. Such bonds make up about 28 percent of the market today.

Other bonds are so-called revenue bonds. They are not backed by taxes, and typically they do not have to be approved by voters. Sometimes the bonds are backed by revenues from, say, a bridge or toll road. More and more, municipalities are using such bonds to lure industry. The money goes to build a new factory, and if the factory goes bust, the investor cannot count on being repaid out of tax revenues. The investor in revenue bonds often finds it difficult to determine who is responsible for paying the interest.

Many experts say this is not a game for small investors who may need money in a hurry.

Such factors, says Robert Lamb, a professor at New York University's school of business administration, have made the municipal bond market riskier than at any time since the 1930s.

Says another expert: "The trick is to read and understand the fine print in the bond's documents or to deal with a bond dealer whom you know and absolutely trust."

There are bond-rating agencies, which grade municipals for their safety. But both Moody's Investor Service and Standard & Poor's Corporation were very late in downgrading their ratings on those Whoops bonds, and Moody's carried a double-A rating on California's San Jose School District until the district voted to declare bankruptcy.

The lower the safety rating the higher the interest level needed to attract buyers—a point overlooked by some of those who bought Whoops bonds, with that fat 13 percent yield. John T. Feeney, president of Moore & Schley Municipals, of Florham Park, N.J., a brokerage firm specializing in tax-exempt securities, says the average investor should pick a portfolio that has 60 percent to 70 percent of its money in bonds rated A or better. "If you have that," he says, "you can take a chance with a few B-rated bonds, which give you a higher return."

Some people, Feeney goes on, "prefer to buy a bond with a 15 percent coupon. But they're gambling. They're hoping that whoever issued the bond will be able to keep paying interest for, say, 10 years—and by then they'll have back 150 percent of their money."

MOST BUYERS of tax-exempt bonds today are individuals (until recent years insurance companies and other large institutions predominated among the buyers, but for diverse reasons they no longer do). However, many experts say this is not a game for small investors who may need money in a hurry. A small amount of municipal bonds can be difficult or expensive to sell. "The minimum amount you should buy," says one expert, "is $25,000."

For smaller amounts, experts advise putting your money into a unit investment trust—a kind of mutual fund, made up of a variety of municipal bond issues. Units in the trusts generally are easy to buy and sell, and the investor gets the added protection of having his funds spread across a number of issues. Some trusts have invested in some of the riskier bond issues, but there are limits on how much they can put in an individual issue. So, says Feeney, "Even if there is a Whoops in there, you can come out okay."

The investor should check out his state tax situation; although there is no federal tax on municipal bonds, there can be a state or city tax. Unhappy inhabitants of New York City usually are advised to buy New York bonds to avoid heavy taxes by both the state and the city on other jurisdictions' issues.

Finally, commissions on municipal bonds are low, and dealers often turn for profit to what is called "the spread"—the difference between bid and asked prices on the bonds.

In my own buying of municipal bonds I have been careful to get prices from two or three houses. Shopping around can save you money on what can be a very attractive investment—provided you know enough to be able to spot a winner from a Whoops. □

RAY BRADY *is the business correspondent for CBS News.*

Incorporate Yourself— and discover America's most powerful tax shelter

"About 30,000 people a month are incorporating themselves and gaining tax benefits others only dream about. And it's remarkably easy to do . . ." by Ted Nicholas

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PHOTO: BRUCE FLYNN—PICTURE GROUP

THE FUTURE was uncertain for Tom Foster, a veteran General Motors toolmaker, when GM's St. Louis assembly plant ceased building autos in 1981 as the nation slid into recession.

Today Foster, 43, runs a multimillion-dollar robotic welding system at GM's new $500 million Wentzville, Mo., assembly plant, where production of front wheel drive cars started December 1.

Foster is one of millions of American workers who are benefiting from a 14-month-old economic recovery in which increased consumer spending and greater business investment—of the type that has led to GM's retraining of Foster and thousands of other workers—have been driving forces.

Last year employment in the United States grew by 3.6 million people. And 6.5 million more will join them in 1984 and '85, according to economic projections prepared for NATION'S BUSINESS by the U.S. Chamber of Commerce forecast section.

1984-85 ECONOMIC FORECAST

Surge in Consumer Spending, Business Investment and Jobs

U.S. Chamber of Commerce experts see a period of healthy growth ahead.

By Peter A. Holmes

The outlook for a sustained period of healthy economic growth is now brighter than it has been in more than a decade. The economy's vital signs indicate that, over the next two years, the nation can expect falling unemployment—another percentage point, according to the projections—and interest rates, to a prime rate of 9.1 percent. And most remarkably, they indicate that there will be no rapid acceleration in inflation of the sort that accompanied the last three recoveries, dating back to 1971. In 1985, the inflation rate will average 6.3 percent, the forecasters say.

Business spending for new equipment and buildings, which traditionally starts to grow in the second year of a recovery, should surge an impressive 10 percent this year in inflation-adjusted dollars and 9.1 percent in 1985.

The forecast section's bullish outlook is widely shared. One major capital goods producer, Cleveland-based Eaton Corporation, predicts a "dramatic improvement" in business conditions in its markets this year. General Electric's senior vice president for finance, Thomas O. Thorsen, says that 1984 will be a

The economic recovery will be aided by a strong gain in business spending for new equipment like this computerized lathe at the Van-Wal Machine Company in Bellingham, Mass.

"brighter year than we have seen in a long time."

Consumers are more optimistic today than at any time during the '70s and early '80s, according to the University of Michigan Survey Research Center. This means retailers and the companies that produce the goods and services they sell can expect good times ahead.

Overall output of goods and services should rise more than 10 percent over the next 24 months, according to Chamber projections. An expanding economy is responding to the Reagan administration's supply-side policy of tax incentives that stimulates both economic growth and business investment—a policy that many skeptics once claimed was not working.

Business investment and profits have recovered faster than in typical postwar expansions, in spite of high interest rates that many feared would cause a slow rebound in businesses' net income.

Consumer spending rose an estimated 4.4 percent last year; this reflected a substantial gain in individuals' real after-tax disposable income of 3.1 percent, despite very moderate wage gains. Real disposable income is expected to grow 5.3 percent this year and 4.6 percent in 1985.

PHOTO: MICHAEL PATRICK—PICTURE GROUP



New construction, like this house in Knoxville, Tenn., will boost the lumber and appliance industries. An import surge and slow growth in exports will produce a big trade deficit.

FURTHERMORE, anti-inflation policies will result in an increase of only 3.2 percent in unit labor costs this year and 5.4 percent in 1985, according to the forecast section. Productivity growth should be a substantial 3.1 percent in 1984 and 2.1 percent in 1985.

The Commerce Department's chief economist, Robert Ortner, says that labor cost pressures are low for this stage of the business cycle and that continued wage restraint will be necessary in industries competing with foreign suppliers, such as autos and steel, if domestic producers are to maintain their markets.

One dark spot in the forecast is international trade, which as recently as 1981 accounted for 12.8 percent of manufacturers' payrolls and 13.5 percent of their shipments. A surge in imports this year, but only modest recovery in exports, will produce a substantial trade deficit in 1984. The trade gap will narrow somewhat in 1985 as the economic recovery spreads to major foreign markets and exports pick up.

Near record federal budget deficits—$190 billion is forecast for fiscal 1984 and $161 billion for fiscal 1985—cast an ominous shadow over the recovery's duration. Further clouding the outlook are Federal Reserve System policies

PHOTO: ARNOLD ZANN—BLACK STAR



that may reduce the supply of bank credit and sacrifice some economic growth in favor of more stable prices.

Treasury Undersecretary Beryl Sprinkel believes the greatest threat to the recovery's longevity would be failure by the Federal Reserve to follow a policy of stable and moderate growth in the money supply. "If they overshoot, inflation will get a lot worse," Sprinkel warns. "Conversely, if we get zero growth in the money supply, that will stall out the recovery."

The bellwether housing and auto sectors—among the most sensitive to changing interest rates—will turn in strong performances, the forecast section says.

Construction of houses and apartments is expected to rise from 1.7 million units last year to 1.8 million in 1984 and 1.9 million in 1985. Also on the rise will be business investment in structures. Spending should grow 7.2 percent this year and 8.2 percent next year.

Domestic auto makers are expected to turn out 8.5 million cars and vans this year, for their best showing since 1978, and 8.9 million units in 1985.

THESE MEASURES of the recovery's quickening pace signal more jobs for Americans. Payrolls will grow by another 3.7 million workers this year and 2.8 million in 1985, the forecast section says.

Unemployment, down 2.4 percentage points by last November from a peak of 10.8 percent in 1982, will fall to 8 percent of the labor force looking for work in 1984 and 7.4 percent next year, according to the Chamber forecast. Already, more Americans are at work than ever before—104 million, and the percentage of the population with jobs is at a near all-time high level, 59.1 percent. Many of them are in jobs that did not exist a few years ago.

The new equipment Tom Foster operates—a gigantic framing machine called a robo-gate system that uses eight welding robots to lock in place key sections of an auto body—is an important cog in high tech assembly techniques GM has developed. "Working the robo-gate system is a complete change from my original trade," says Foster. Thanks to retraining, he is now skilled in electronics, robotics and hydraulics.

Foster says the experience "took me out of a period of stagnation and into something that rekindled my enthusiasm for work." The new plant where he works employs 2,800 workers. GM says it expects another 2,800 to be employed there in a second shift as demand for cars picks up.

In the first 12 months of the recovery, 2.6 million jobs were added to nonfarm payrolls on a seasonally adjusted basis, according to preliminary figures from the Bureau of Labor Statistics. During the recession, which lasted from July, 1981, to November, 1982, 2.7 million jobs were lost.

Through recession and recovery, services have turned in the best performance, adding 548,000 jobs during the downturn and another 934,000 since the expansion began.

Of the bureau's 10 categories of nonfarm employment, the finance, insurance and real estate sector was the only one to gain employment during the recession, picking up 46,000 jobs. It has added 145,000 more during the first year of recovery. In the wholesale and retail trades, a loss of 306,000 jobs during the recession has been erased by a 354,000 gain.

A strong rebound in manufacturing employment, up 952,000, has partially blunted the impact of the loss of 2.1 million factory jobs during the recession.

Construction payrolls have grown substantially during the recovery, up 156,000, after a loss of 344,000. In the transporta-

PHOTO: JEFF ZARUBA—FOUCI, INC.



Increased sales of convenience foods like these frozen dinners reflect the growing trend toward two wage earners in many American households.

PHOTO: DAVID WALDEZ



Consumer spending for such items as home computers gave the economy a big lift last year and should help propel it to record levels this year and in 1985.

tion sector, 15,000 jobs were created in the first 12 months of the recovery, following a loss of 163,000 in the recession. Among local, state and federal government employes, a scant 18,000 jobs have been added since the recovery started, following a loss of 235,000 during the recession.

At the bottom of the employment picture is mining, which has lost 35,000 jobs since the start of the recovery on top of the 109,000 jobs eliminated during the recession.

The recovery began like most postwar expansions, with a pickup in home construction, the restocking of shelves and finally a rise in consumer spending—after a delay caused in part by a phasing in of the 1981 marginal income tax cuts over three years. (The Reagan administration originally wanted Congress to cut taxes all at once but was forced to compromise.) Since the personal income tax cuts that took effect in 1981 and 1982 were largely offset by higher Social Security payroll taxes, higher gasoline taxes and inflation, most consumers had to wait for the 1983 tax cut to get a break on their total tax bill, the forecast section says.

Several other forces converged to increase consumers' confidence and encourage them to open up their wallets:

- A $1 trillion rise in the value of equities traded on stock exchanges boosted many households' wealth.
- Debt from credit card purchases was rapidly paid off.
- A sharp drop in the inflation rate swelled purchasing power.

The long awaited buying spree led to the hiring of more persons to produce more goods and to rebuild shrunken inventories. Spendable income grew.

Consumer spending will rise 4.8 percent this year and 3.5 percent in 1985, the Chamber forecast section says. The biggest percentage rise this year will be for cars and next year for furniture and other big-ticket household items. More efficient use of energy, falling gasoline and oil prices in 1984, and lower prices for coal, fuel oil and natural gas in 1985 will mean consumers have more to spend for other goods and services.

Income tax bracket creep—the hidden levy that saps purchasing power and permits Congress to get more revenues without voting to raise taxes—will end in 1985 under current law. Marginal income tax rates will be indexed to offset inflation's effects, and consumers can be expected to start saving more money.

In the meantime, industrial production will soar 10.9 percent this year, according to the forecast section, but there will be a more modest 5.6 percent gain in 1985 as inventories catch up with sales.

Percentage gains are expected to be

An Overview: Good Times Ahead

(Annual percentage change [except where otherwise noted] in real terms)

	1982	1983*	1984	1985
Gross National Product				
Total GNP	– 1.9	3.5	6.1	4.0
Final sales	– 0.7	2.9	4.9	4.0
Consumption	1.4	4.4	4.8	3.5
Residential investment	–15.3	40.3	13.9	7.3
Business fixed investment	– 4.7	– 0.1	10.0	9.1
Equipment	– 7.5	3.2	11.2	9.5
Structures	1.8	– 6.9	7.2	8.2
Exports	– 7.8	– 5.7	5.3	7.3
Imports	1.4	6.9	12.3	7.2
Government purchases	1.8	0.8	3.6	1.7
Disposable income	0.5	3.1	5.3	4.6
New car sales (in millions of units)	8.0	9.2	11.0	11.6
Domestic car sales (in millions of units)	5.8	6.9	8.5	8.9
Housing starts (in millions of units)	1.1	1.7	1.8	1.9
Employment, Wages and Prices				
Unemployment rate (in percent)	9.7	9.7	8.0	7.4
Compensation	7.9	5.7	6.5	7.6
Productivity	0.0	3.2	3.1	2.1
Unit labor costs	7.9	2.4	3.2	5.4
Consumer prices	6.2	3.3	5.4	6.3
Prime interest rate (in percent)	14.9	10.8	9.8	9.1

*Estimate

Graciela Testa Ortiz and Rajni Bonnie Ohri of the U.S. Chamber forecast section prepared the data for these tables. Kimberly A. Huntzinger provided research assistance.

Employment: 6.5 Million More Jobs

(In thousands of jobs)

	1983*	1984	1985	Change in Employment 1983–1985
Nonfarm total	89,957	93,693	96,504	6,547
Manufacturing	18,677	19,880	20,533	1,856
Durables	10,928	11,848	12,327	1,399
Lumber	679	756	775	96
Furniture	450	492	521	71
Stone, clay and glass	575	617	648	703
Primary metals	838	928	982	144
Fabricated metals	1,396	1,505	1,585	189
Nonelectrical machinery	2,093	2,333	2,477	384
Electrical machinery	2,039	2,176	2,196	159
Transportation equipment	1,781	1,942	2,024	243
Instruments	692	709	729	37
Miscellaneous	382	389	388	6
Nondurables	7,749	8,032	8,206	457
Food	1,632	1,660	1,684	52
Tobacco	65	65	65	0
Textiles	746	797	824	78
Apparel	1,167	1,216	1,243	76
Paper	659	682	694	35
Printing	1,282	1,324	1,355	73
Chemicals	1,060	1,084	1,101	41
Petroleum	197	199	204	7
Rubber	725	793	826	101
Leather	215	213	209	–6
Construction	3,958	4,423	4,818	860
Finance, insurance and real estate	5,460	5,700	5,995	535
Federal government	2,740	2,773	2,827	87
State and local government	12,970	13,112	13,352	383
Mining	1,019	1,058	1,064	45
Transportation and public utilities	4,933	5,043	5,114	181
Services	19,678	20,392	20,850	1,172
Wholesale and retail trade	20,522	21,313	21,950	1,428

*Estimate

largest in new orders for farm equipment—about 25 percent this year and again in 1985 from the deeply depressed level of 1983. A big rise in farmers' income, brought about by higher crop prices, will ripple down Main Street, benefiting millions of businesses.

The forecast section says double-digit gains this year in 10 of the 20 categories of durable and nondurable goods will further spread the benefits of recovery to industries in all parts of the nation:

- Lumbering in the Northwest and South.
- Metal processing, machinery and transportation equipment in the Great Lakes and Middle Atlantic states.
- Textiles in the South.
- Chemicals and petrochemical-based products, whose production is concentrated along the coasts and river valleys.

Major gains are also forecast for computers and other business equipment. This means continued employment gains in areas that have attracted the bulk of the high technology companies, including New England, California, Texas, Florida and Colorado.

The increase in demand for products used in military applications will slacken as real growth in the defense sector slows, the forecast section says. Likewise, those parts of the nation that were helped out by rising energy prices can expect a slow two years.

Production of consumer goods is expected to grow 8.4 percent this year, then ebb to a 3.9 percent rise in 1985.

BUSINESS INVESTMENT will pick up as demand for goods starts to approach industry's capacity to produce them. Pressure to replace existing equipment with more efficient machines will rise in the face of aggressive price competition from foreign producers. After a decline last year, investment by industry (except agriculture) is expected to grow 13 percent in 1984 and 11.5 percent next year.

Particularly strong gains will be registered, the forecast section says, among manufacturers of long-lasting durable goods—like heavy equipment and instruments—that were battered during the recession. An 18.9 percent rise is forecast this year and 17.6 percent next year.

Especially large increases in investment are expected to be registered by manufacturers of transportation equipment, cement, pottery, glassware, machinery and products made from aluminum and steel. After two years of depressed sales levels, the steel industry should begin to see a pickup in orders for structural shapes, bars, plate and other mill products used by capital goods manufacturers.

Among makers of nondurable goods —products that last less than three

Consumption: Raising Living Standards

(Annual percentage change from previous period)

	1982	1983*	1984	1985
Real Consumer Spending	1.4	4.4	4.8	3.5
Durables	−0.9	11.9	11.7	5.6
Furniture, etc.	−3.1	7.2	7.4	6.8
Motor vehicles and parts	2.5	20.0	18.4	5.6
Other[1]	−3.5	3.9	3.8	2.5
Nondurables	0.5	3.4	3.3	2.4
Clothing and shoes	1.4	3.0	5.0	4.7
Food	1.2	4.1	2.7	2.1
Fuel oil and coal	−2.5	13.3	1.3	−7.0
Gasoline and oil	1.8	2.9	− 0.7	−1.8
Other[2]	−2.9	1.5	4.7	2.5
Services	2.9	2.9	3.7	3.6
Household operations	0.9	0.2	3.3	3.0
Electricity	0.0	0.0	3.1	2.8
Natural gas	2.4	− 6.2	0.4	−0.7
Other[3]	4.4	4.3	4.5	4.4

*Estimate

[1] Jewelry, tableware, toys, athletic equipment, appliances, etc.
[2] Detergents, cosmetics, drugs, etc.
[3] Entertainment, advertising, lodging, repairs, health, financial services, communications, etc.

Industrial Production: Making More Goods

(Annual percentage change from previous period)

	1982	1983*	1984	1985
Total	− 8.1	6.7	10.9	5.6
Manufacturing	− 8.5	8.2	11.4	5.6
Durables	−11.1	8.3	13.6	6.6
Lumber	− 5.4	23.5	10.6	3.6
Furniture	− 3.3	11.8	9.8	5.6
Stone, clay and glass	−13.3	12.5	12.8	5.8
Primary metals	−30.3	14.5	21.0	9.4
Fabricated metals	−15.9	5.5	15.8	7.6
Nonelectrical machinery	−12.9	1.7	14.5	8.7
Electrical machinery	− 5.0	9.0	11.0	5.4
Transportation equipment	− 9.4	12.5	17.6	7.8
Instruments	− 5.0	− 0.9	9.9	6.5
Miscellaneous	−11.5	8.2	5.7	1.3
Nondurables	− 5.2	8.0	8.9	4.5
Food	− 0.6	4.8	5.3	3.1
Tobacco	− 3.5	− 2.3	5.7	1.4
Textiles	− 8.3	15.2	11.0	3.8
Apparel	− 9.9	8.6	8.7	5.0
Paper	− 2.8	8.9	5.8	0.8
Printing	0.0	4.7	7.4	2.2
Chemicals	− 9.0	9.9	10.9	5.9
Petroleum	− 6.1	− 0.1	4.4	0.9
Rubber and plastics	− 7.0	14.7	16.4	10.2
Leather	−12.0	0.8	0.4	− 1.4
Products, total	− 7.2	9.0	10.2	5.9
Final products	− 5.4	4.5	9.5	5.3
Consumer goods	− 3.5	7.1	8.4	3.9
Farm equipment	−28.3	−12.9	25.4	25.5
Business equipment	−12.7	− 3.2	13.8	10.3
Defense and space equipment	6.4	10.2	5.1	0.6
Materials	−11.8	8.9	13.6	6.0
Mining	−11.3	− 7.9	9.0	5.1

*Estimate

years—increased business investment should lead to back-to-back gains of 11.1 percent and 13 percent. The strongest is expected to come from purchases of machines and buildings by makers of textiles and rubber products. Petroleum refiners, food and beverage companies, and paper and chemical firms will register small but still sizable gains over the next two years, the forecast section says.

Among nonmanufacturing industries, investment should grow 11.9 percent this year and 9.2 percent next year. The biggest increases in capital investment in 1984 are expected to be made by rail and communications companies, the former growing 26.2 percent over last year and the latter nearly 20 percent. More double-digit gains can be expected in 1985.

Even the depressed mining industry should show signs of recovery, with labor-saving investment in mining and refining equipment expected to grow 15.5 percent this year and 17.1 percent in 1985.

Investment by commercial and military aircraft companies and producers of aerospace products is expected to be slightly ahead of last year's pace, with a strong 23.3 percent gain in 1985 seen.

Gas and electric utilities are expected to increase investment 6.3 percent and 7.8 percent over the next two years.

Services and trade should post investment gains of 10.9 percent this year and 6.3 percent next year.

Building materials, hardware and garden supply stores and retailers of household appliances and furniture—all hard hit in recent years by high interest rates—should also do well as new home construction continues apace.

Auto dealers are on the verge of a boom. Sales of imported and domestic cars should total 11 million units this year and post a new high of 11.6 million units in 1985, the forecast section says. The previous sales peak was 11.4 million units in 1973.

Employment in retailing should grow 1.4 million over the next two years, a gain exceeded only by employment in services.

IN TRANSPORTATION, airlines and truck and bus companies will benefit as the economy grows. Productivity should soar as wage increases moderate under pressure of stiff competition from new companies entering markets in the wake of deregulation. Among interstate truckers, the number of companies competing for goods to haul grew from 17,500 before deregulation to 25,700 at the end of 1982—the latest year for which figures are available.

Despite a few well-publicized bankruptcies, there are many new airlines, and this means more service and price competition for passengers. Freight railroads should see substantial gains in business, with coal mining making a comeback.

As the worldwide recovery accelerates this year, in part because of increased U.S. imports, exports of industrial supplies and materials and motor vehicles and parts should rise. Next year both capital goods and consumer goods should benefit from stronger demand from abroad.

Sales of agricultural products, which account for 20 percent of total U.S. exports, should also improve, the forecast section says. This will be especially good news in 10 states—Arkansas, Illinois, Indiana, Kansas, Louisiana, Minnesota, Mississippi, Missouri, North Dakota and Ohio—where exports account for one third to half of farmers' income. □

To order reprints of this article, see page 69.

An Accurate Call

The U.S. Chamber forecast section has an enviable record in calling the current recovery.

A forecast made before it was apparent that an expansion was under way—it appeared in NATION'S BUSINESS last January—predicted a 3.6 percent jump in gross national product for 1983. The White House Council of Economic Advisers' forecast was 1.4 percent, the Congressional Budget Office predicted 2.1 percent, and the consensus among major private forecasters was 2.5 percent.

The Chamber section recently estimated that GNP rose 3.5 percent in 1983—and 6.5 percent between the last three months of 1982 and the end of 1983.

Business Investment: Improving Productivity

(Annual percentage change in spending for plant and equipment)

	1982	1983*	1984	1985
Nonfarm industries	– 5.5	– 3.6	13.0	11.5
Manufacturing	– 9.1	– 5.0	15.0	15.4
Durables	–10.0	– 7.9	18.9	17.6
Stone, clay and glass	–20.0	– 4.8	22.0	16.8
Primary metals	–11.6	–16.0	14.8	22.9
Fabricated metals	–13.9	–11.8	27.1	22.4
Nonelectrical machinery	3.1	– 4.6	13.1	15.1
Electrical machinery	1.1	0.9	15.9	15.3
Transportation equipment	–19.0	–12.2	27.7	18.8
Nondurables	– 8.1	– 1.8	11.1	13.0
Food and beverage	– 8.1	–14.0	11.1	13.0
Textiles	–16.2	– 3.0	19.6	21.2
Paper	–14.1	5.7	10.9	14.9
Chemicals	– 6.2	1.5	8.4	9.8
Petroleum	– 9.0	– 5.4	12.4	16.9
Rubber	– 5.4	12.0	21.3	21.2
Nonmanufacturing	– 3.3	– 2.8	11.9	9.2
Mining	–16.6	–18.8	15.5	17.1
Trade and services	– 1.7	0.3	10.9	6.3
Communications	–10.1	– 9.0	19.5	14.2
Public utilities	3.8	0.4	6.3	7.8
Transportation				
Railroad	– 0.3	–13.3	26.2	16.6
Air	– 0.7	– 8.4	0.7	23.3
Other†	–11.7	– 8.1	14.7	10.8

*Estimate

† Trucks, buses, ships

Readers' View: Their Businesses Will Do Better

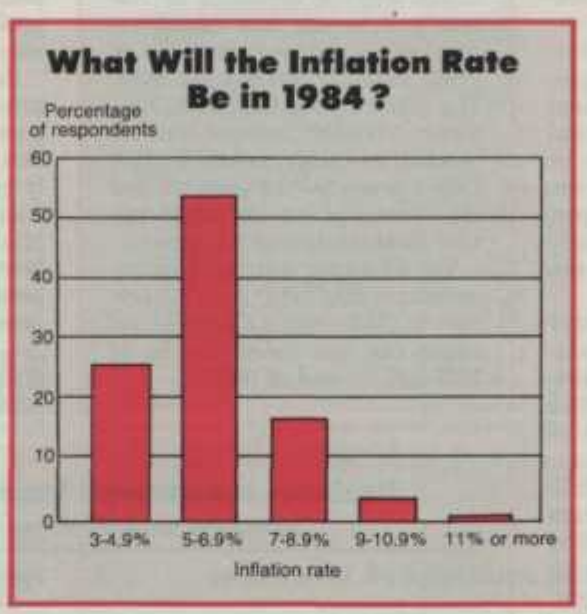
AN OVERWHELMING majority of NATION'S BUSINESS readers who took part in a survey are optimistic about the strength and duration of the recovery and about prospects for their respective enterprises.

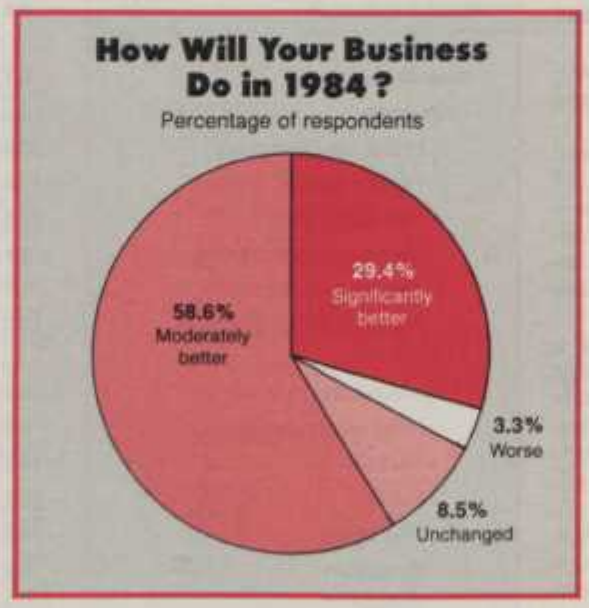
At the same time, they expect inflation to creep upward next year, and they do not anticipate much further relief on interest rates.

The survey, which asked readers for their 1984 economic forecasts, appeared in the November issue. Of those responding, 85 percent hold top management positions, 11 percent are in middle management, and the balance represent other business and professional categories.

Responses of readers participating in the survey show that:

- 72 percent expect the national economy to be moderately better in 1984 than it was in 1983; 17.9 percent expect it to be significantly better; 6.9 percent expect no change; and only 2.7 percent see a deterioration. (Percentages for "no response" have not been included.)
- When it comes to their own businesses, 58.6 percent say they will do moderately better; 29.4 percent, significantly better; and 8.5 percent, unchanged. Only 3.3 percent anticipate a decline.
- Nearly three quarters of the respondents expect the inflation rate to be higher than the final figure of 3 to 4 percent expected for 1983. More than 53 percent expect a range of 5 to 6.9 percent; 16.2 percent expect an inflation rate of 7 to 8.9 percent. And nearly 5 percent see an increase of more than 9 percent in inflation during 1984. One quarter of respondents put the anticipated 1984 inflation figure at less than 5 percent.





Readers were also asked to indicate which potential developments could enhance and which worsen economic conditions in 1984.

A reduction in government spending and lower interest rates are viewed as the factors that could do most to help the economy in 1984, while a sharp rise in interest rates, a return to double-digit inflation and continued high federal deficits are viewed as the worst threats to a healthy economy in the new year.

Other potential steps that readers see as helpful to the economy are, in order of priority, increased consumer spending, increased capital spending, a reduction in federal regulation and a reduction in state and local regulation.

Other adverse developments would include an increase in federal taxes, a decline in consumer confidence and major defaults on loan repayments by Third World countries.

Other findings of the survey on business readers' expectations for the economy:

- With the prime rate 11 percent at the end of 1983, less than a quarter of readers responding expect it to be under 12 percent during 1984, and just over half anticipate a prime between 12 and 14.9 percent in 1984. Nearly 12 percent of readers see the prime reaching 15 percent or higher during 1984.
- More than 90 percent of reader-respondents see the recovery continuing through next year; 57.6 percent at least through 1985; 26.6 percent at least through 1986; and 17.1 percent beyond 1986.
- 57 percent of respondents plan to expand their businesses during 1984 by adding new product lines or territories, and 51 percent expect to build new office or plant facilities or expand existing facilities over the next four years.
- 86 percent expect gross sales to increase during 1984; 9.3 percent expect no change; and only 3.9 percent see a decrease.
- Of those expecting higher gross sales, 29.6 percent see a gain between 5 and 10 percent; 29.2 percent expect an increase between 10 and 20 percent; 13.1 percent anticipate an increase of 5 percent or less; and 18.3 percent see one of more than 20 percent.
- Of those expecting an increase in net profits, 23.7 percent put the anticipated gain in a range of 5.1 to 10 percent; 24.2 percent say they anticipate an increase of 10.1 to 20 percent; and 17.7 percent look for a boost of 20.1 to 50 percent. A profit increase of 5 percent or less is anticipated by 21.6 percent of respondents.
- Nearly 60 percent expect employment in their respective companies to go up next year; 32.5 percent anticipate no change; and only 8 percent expect a decrease.

Of the companies represented in the responses, two thirds have fewer than 100 employes; 16.6 percent have between 100 and 499; and another 16.6 percent have more than 500. The median employment is 210. □

The Struggle for Control Of the U.S. Senate

How much does it matter to business which party holds the most seats?

By Seth Kantor



PHOTOS: PAUL CONKLIN

For Democrat J. Bennett Johnston and Republicans Charles Percy and Jesse Helms—and some of their colleagues—a tough re-election fight is ahead. GOP control of the Senate is at stake.

DURING MOST of last November, as the first session of the 98th Congress struggled toward an uncertain end, the Senate had great difficulty reaching decisions on issues of vital importance: federal deficits, tax measures, the nation's worldwide trade imbalance and domestic budget priorities.

In that period, Sen. Charles Percy (R-Ill.) hurried onto the Senate floor to take care of some unfinished business. He delivered a statement in praise of the Chicago White Sox.

Percy, chairman of the Foreign Relations Committee, does not ordinarily act like a hometown cheerleader, but he is up for re-election in 1984 and is in political trouble back home. It seemed as good a time as any to invoke the national pastime.

As safe a subject as baseball seemed, Percy had to go back to the Senate floor a week later and apologize. The *Congressional Record* had quoted him as having said in his official remarks that the White Sox play their home games at "Cominske" Park, not the South Side Chicago institution named for the late Charles Comiskey.

Other, more vital issues were put over to this year by the Senate because of what Majority Leader Howard H. Baker, Jr., (R-Tenn.) calls "the wet noodle problem."

Baker explains that he cannot make the Senate stand up and do what it should do. And because 1984 is an especially rough-and-tumble election year for the Senate, Baker and other experts will not be surprised if the wet noodle problem persists until next November.

One expert, political forecaster Richard Scammon, says the Senate will take no real action against deficits this year. He also says taxes will not be raised this year or next.

"Attacking the deficits is what I call the 'junk syndrome' among politicians," Scammon says. "It's just so much talk. If the economy improves, many people are going to forget all about the federal deficit."

Conservative Rep. Newt Gingrich (R-Ga.) agrees. He says that "fighting deficits is becoming a code term among politicians for new tax increases."

At the start of the second session of the 98th Congress, Democrats are, as usual, in unshakably firm control of the House (see box). But the GOP's current 55-45 hold on the Senate is expected to shrink, and either party could be in the majority after November 6.

Nineteen GOP lawmakers are up for re-election this year, as against 14 Democrats. Political analysts say most of those in trouble are on the Republican side of the aisle.

SIX RACES to watch involve GOP senators: Percy, Roger W. Jepsen (Iowa), Rudy Boschwitz (Minn.), Jesse Helms (N.C.) and the seats being vacated by the retirements of Baker and John G. Tower (Tex.).

The Percy candidacy poses a dilemma for some members of the Illinois business community. The veteran senator faces a strong challenge in the party primary next March 20 from Rep. Tom Corcoran, whose voting record is more conservative than that of the incumbent.

Some business people believe that they should endorse Corcoran on the basis of that record. But other members of the business community argue that the overriding goal should be continued Republican control of the Senate, which has blocked many House-

passed bills that business opposes. They argue that Percy, who has won election to the Senate three times, stands a better chance of holding the seat for the Republicans.

State Senate President Philip Rock and Rep. Paul Simon are the front-runners for the Democratic nomination for the seat.

Another Senate race drawing wide attention is the one involving Helms, one of the most conservative senators, and Democratic Gov. James B. Hunt.

Meanwhile, many analysts say, only two Democratic incumbents in the U.S. Senate appear to be vulnerable—J. Bennett Johnston of Louisiana and Claiborne Pell of Rhode Island.

SOME SUPPORTERS of Ronald Reagan warn that if he wins but the Democrats regain control of the Senate, the real winner will be Sen. Edward M. Kennedy (D-Mass.). Kennedy, they warn, will become a political power broker, maneuvering Senate policy in line with his own 1988 presidential ambitions.

However, that idea is disputed by Sen. Lloyd M. Bentsen (D-Tex.), a moderate-to-conservative businessman and rancher. Bentsen, who chairs the Democratic Senatorial Campaign Committee, is considered one of the most probusiness members of the Senate Finance Committee.

He says probusiness moderates would take over a number of committees—Sen. Russell B. Long (D-La.), for one, would be Finance chairman—if the Democrats returned to power.

Rep. Thomas P. O'Neill (D-Mass.), the liberal House speaker, says he thinks Bentsen will be a prime contender for the vice presidential nomination at the Democratic convention next summer.

If he gets the nomination, two former Texas House members with Houston business backgrounds—Bentsen and George Bush—will be the No. 2 candidates on both national tickets. (The winning vice presidential candidate will have an important role in the Senate if, as seems entirely possible, that body winds up with 50 Republicans and 50 Democrats as a result of the November 6 elections. The Vice President has constitutional authority to break tie votes in the Senate.)

Bentsen put together a coalition of corporate chiefs—among them, Roger B. Smith of General Motors, Leland Prussia of the Bank of America and John F. Welch, Jr., of General Electric—to spearhead a $1 million fundraiser for the 1984 Democratic Senate campaign. The money was raised at a dinner honoring Long.

Sen. Richard G. Lugar (R-Ind.) disagrees with Bentsen's picture of a Democratic-controlled Senate as one run by moderates. Lugar, who chairs the National Republican Senatorial Committee, warns that "the only thing standing between us and chaos in government is our Republican majority."

During the 1981-82 election campaign, GOP Senate campaign committees raised nearly $9 to every $1 for the Democrats. Early indications are that Lugar's Senate committee will raise more than $90 million for this year's Republican candidates—nearly double the amount the committee raised for 1982.

How important to the business community is control of the Senate by one party or the other?

Don Cogman, founder of the National Association of Business Political Action Committees, believes it is very important that the GOP retain control, and he argues that business must become more involved in this year's national elections than in the past. "Our whole right to participate in the system is at stake," he says.



PHOTO: DAVID VALDEZ

Political analyst Richard Scammon: The Senate's "ideological climate" matters more than which party has a majority.

BUT SCAMMON, an astute political observer who has held posts in both Republican and Democratic administrations, says "the ideological climate of the Senate is much more important than its political label." He adds:

"There is a tremendous gap in American politics between reality and rhetoric, and what actually goes on in the Senate is what really counts. With a slim [Democratic] majority, the liberals could not have a real majority there."

Scammon has an interesting political theory about the Senate in 1984: "The Democrats normally have held the Senate majority over the past 40 years. Reagan has been moving the country back toward normalcy. Therefore, there is at least an even-money chance the Democrats will retake the Senate."

John Kochevar, director of political action programs at the U.S. Chamber, points out that business must overcome obstacles to its full participation in the election. "Business people are not as generally registered and don't vote as frequently as most people think," says Kochevar. "Probably 25 percent of those in management are not even registered to vote, often because they have moved since the last election and are not registered in their new jurisdiction.

"Even if they are registered, they might be otherwise occupied on election day. For example, national elections always are held on a Tuesday. Look at all the people who fly on any given weekday, and 80 to 90 percent of them are business people. It is unlikely that the vast majority of them will vote unless they file absentee ballots or make other provisions to cast their ballots where they count." □

The Invisible Majority

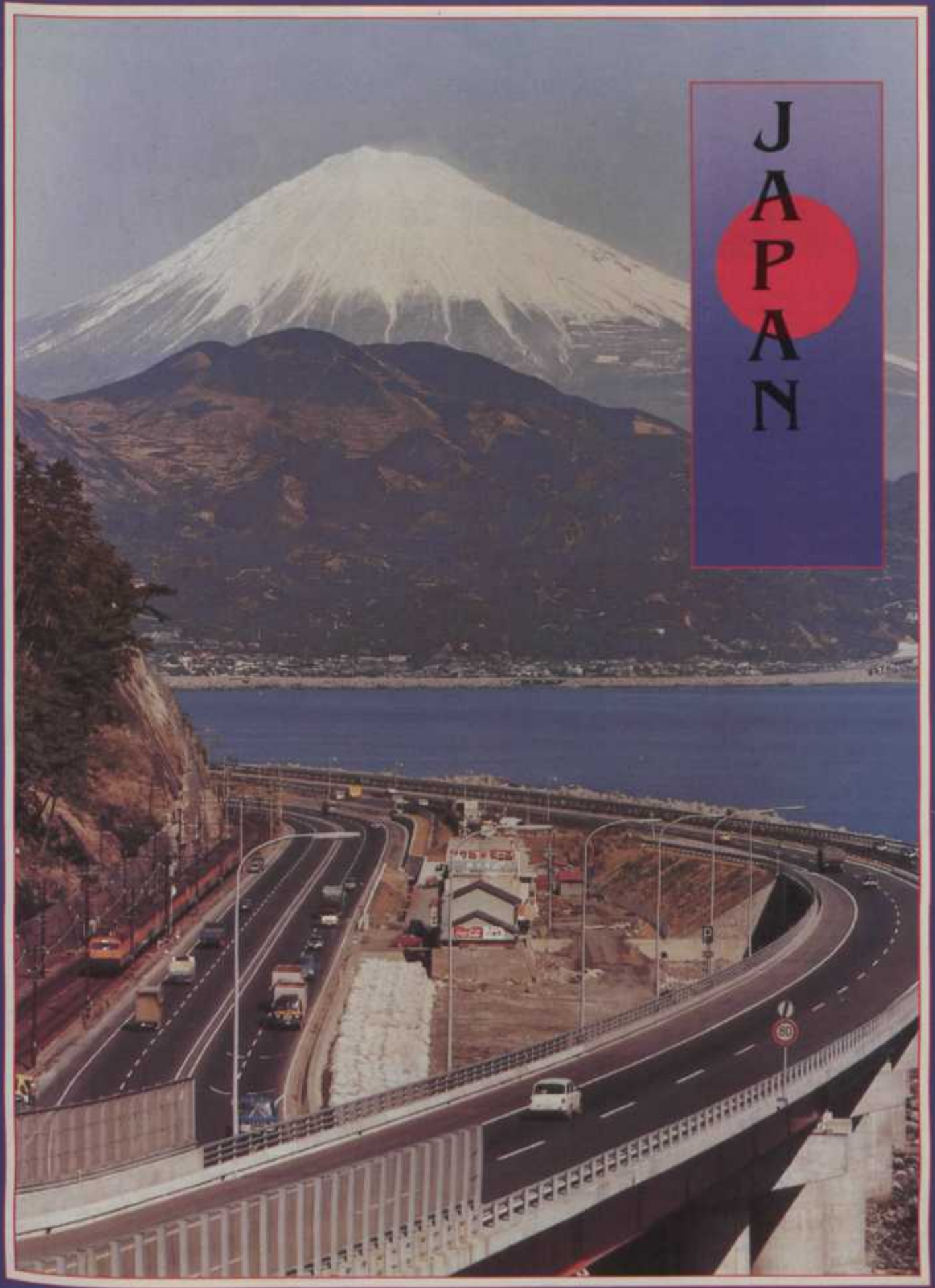
There are 268 Democrats and 167 Republicans in the House of Representatives as the second session of the 98th Congress gets under way this month, and it would take a political Houdini to come up with a way for the GOP to win House control next November.

Rep. Newt Gingrich (R-Ga.) says it is "geometrically" impossible for his party to come close to a majority because studies show that Republicans win a national average of no more than 38 percent of the votes in congressional districts across the land.

But conservative Republican-Democratic coalitions in the past gave the GOP a working majority in the House even when the Democratic side of the aisle had the numbers. President Kennedy's string of legislative defeats in the House in 1962 and 1963 and President Reagan's string of victories early in his term demonstrate that there is at times an invisible Republican majority.

Is another of those invisible majorities shaping up in 1984? Watch for a growing split between Speaker Thomas P. O'Neill (D-Mass.), 71, and the 58 Democratic members of the freshman class. Many of them were not born when Tip O'Neill began his political career in the New Deal era of huge social spending programs.

O'Neill has been unable to bring the freshmen into line. They have been wrangling with him over foreign policy, deficits and taxes. If the split continues to widen in 1984, look for Republican strength in the House to be much greater than numbers alone would suggest.


JAPAN

JAPAN

JAPAN SPEAKS

A Trade Door Opens Wider to the World

UNQUESTIONABLY the central issue in the debate on U.S.-Japan economic relations is the record U.S. deficit in merchandise trade in recent years, which has fomented a number of protectionist proposals in the United States.

"Yet there are not very many on either side who really believe that U.S.-Japan bilateral trade should be, or even can be, in perfect balance," says Yoshio Okawara, Japan's ambassador to the United States. "Differences in economic structure and comparative advantage make it wholly unrealistic to seek a near balance in trade between any two nations. Equilibrium is feasible only in a multilateral context."

It is also important to keep in mind, he has stated, that merchandise trade is not the complete measure of any nation's international economic performance, and that it should be noted that the United States is the world's largest exporter of services, capital investment, technology, licenses and other trade invisibles.

Ambassador Okawara also has addressed the problem of Americans' perception of Japan. "First, the Japanese do not believe that their market is as closed as is often complained in the United States. As a result of a series of market-opening measures over the years, the Japanese view their market as having opened up."

Moreover, the ambassador points out, Prime Minister Yasuhiro Nakasone announced a five-point plan of comprehensive economic measures on Oct. 21, 1983, which is "designed to ensure economic growth led by expansion of the domestic economy, promote the openness of the domestic market and harmonious external economic relations, and strengthen the free trading system in keeping with the agreement reached at the Williamsburg Summit."

Michihiko Kunihiro, economic minister on the staff of the Embassy of Japan to the United States, is all too familiar with the many facets and intricacies of Japan-U.S. trade relations. In an interview with NATION'S BUSINESS he gave the Japanese government's position on some of the key issues that affect trade relations between the two nations.



Japan is a magnificent success story among the world's economies. Tokyo, like other major cities, throbs with commerce and expanding consumer markets.

It is often said that the United States has a great trade deficit because the Japanese market is not as open to American products as the American market is to Japanese products. How do you respond to such statements?

I have three points to make. In the first place, the American market is generally more open than the Japanese market, but I would also like to remind you of Ambassador Mike Mansfield's remark that "many people think that the Japanese market is more closed than it is, and many Americans think our own market is more open than it is. I think we've got to revise our thinking." Although I am advocating that Japan should try harder in market opening, I would also like to stress that Japan is a very "exportable" market.

Secondly, U.S. exports are doing better in Japan than in other markets. During the first nine months of 1983, total U.S. exports declined by 7.5 percent to $150.5 billion, from $162.6 billion during the same period last year. But exports to Japan increased a little—from $15.5 billion to $15.7 billion. Also, while the total U.S. trade deficit expanded from $30.8 billion to $46.2 billion during the same period, the deficit with Japan narrowed slightly, from $15.4 billion to $15 billion.

Thirdly, the trade balance has much to do with macroeconomic conditions in the two countries. In Japan, economic growth has remained very stable at the level of 3 to 4 percent, so overall import demand has remained sluggish. In the United States, the economic recovery has been more rapid than most people anticipated, creating a strong import demand and absorbing export potentials. I don't think it is right to conclude that the United States has a large trade deficit because the Japanese market is not open. In the years from 1973 to 1975, our bilateral trade was roughly balanced. There can be no denial that the Japa-

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President Reagan's visit to Japan last November resulted in very productive talks with Prime Minister Yasuhiro Nakasone on a number of important economic issues, including trade.



While seeking more imports, Japan must also continue to export to pay for those imports. Bullet train technology is a possible export to other nations.

nese market has been made more open since then. As a matter of fact, U.S. exports to Japan showed a rather impressive growth from $9.6 billion in 1975 to $21 billion in 1982.

But is it not a fact that the Japanese market is protected with high tariff barriers?

Perhaps you have heard of some of those items in which U.S. industry finds export interest but faces high tariffs, such as cigarettes, chocolates, plywood, etc. But there are items of the same nature in this country, too, such as textiles, chinaware and small trucks, to name a few. Japan's weighted average tariff level before 1980 was 3.1 percent compared with 6 percent in the United States.

The multilateral trade negotiations produced an agreement that each country would cut its tariff rates over seven years and, as a result, Japan's average is scheduled to come down to 3 percent compared with 4 percent in the United States.

Effective April 1, 1982, Japan took a unilateral action to accelerate the MTN tariff reductions scheduled for 1983 and 1984 without asking for a counterpart action by trading partners.

Effective April 1, 1983, Japan unilaterally lowered tariffs on more than 300 items, which included cuts in the cigarette tariff from 30 to 20 percent and chocolate confectionary from 31.9 to 20 percent. On Oct. 21, 1983, the Japanese government announced it would accelerate the MTN reduction again on nonagricultural products and also cut the tariff on 44 items. No other country in recent years has been reducing its tariff unilaterally.

Isn't it true, though, that Japan has import quota restrictions such as those on beef and citrus that are in violation of GATT?

It is true that Japan has "residual" import quota restrictions on 27 items, 22 of which are on agricultural and marine products. This number is more or less comparable with that in European countries. The number for the United States is only seven, but it has 13 other agricultural items under quota, although they have waivers from the GATT regulations.

According to Gary Saxonhouse of the University of Michigan, the highest estimates of the global impact of removal of Japanese import barriers will be in the range of $2 billion to $3 billion, rather small even when compared with the size of the bilateral Japanese surplus with the United States alone.

Incidentally, the aggregate import amount of those 27 items in 1982 was $1.856 billion, 2.16 percent of total imports. These restrictions have been and will be under review for possible relaxation.

How about the so-called "nontariff barriers"?

There are different kinds of NTBs in different countries. In the case of Japan, there seems to be a perception that Japanese businesses are somehow intricately arranged to buy from each other and exclude foreign suppliers.

It is rather natural for a business to choose to buy from reliable sources. In general, supplies from other countries are regarded as less secure than those from domestic sources, particularly in a country like Japan that is separated from other countries by the oceans. Even in the same country, suppliers who have a long, steady business relationship and a good performance record have a definite advantage over others.

So, new foreign suppliers are bound to face more difficulties. Also, differences in language and personal behavior may give an impression that the Japanese market is exclusive, but I don't believe it is actually more exclusive than, say, European countries.

According to a survey by the Manufactured Imports Promotion Organization of Japan, about 70 percent of Japanese consumers do not discriminate between imported products and domestic equivalents while shopping.

Among Japanese businessmen, more than 70 percent of them select products, irrespective of domestic or foreign origin, by considering their price or nonprice competitiveness. It does not seem that these figures are lower than those of other countries.

The Japanese Fair Trade Commission conducted an investigation on *Keiretsu Torihiki*, business transactions in major business groups, in fiscal year 1981. According to its finding, the ratio of intergroup trading was much lower than I myself had imagined: 10.1 percent in their sales and 11.7 percent in their purchases.

There also have been complaints about Japan's standard and certifica-

SPECIAL ADVERTISING SECTION



PHOTO: DAVID VALDEZ

Michihiko Kunihiro is the economic minister in the Embassy of Japan.

tion system. I understand the Japanese government took measures to improve it. But I also heard the report that even a single baseball bat has not been sold to Japan yet. Will you tell us what has been happening?

The government conducted an overall review of our system since the end of last year and has completed a major revision of the related laws and regulations. This was hailed by the U.S. Trade Representative, Bill Brock, as "a major step toward eliminating the remaining barriers confronting U.S. exporters to Japan." He further said, "It is a concrete demonstration of the commitment of the Nakasone government to facilitate foreign access to the Japanese market."

The revision of the laws was aimed at (a) enabling foreign suppliers to apply for and obtain certification directly, and (b) according foreign products and suppliers treatment equivalent to that accorded to domestic products and suppliers with respect to testing methods.

The government also took measures to:

- Ensure transparency of standards and certification systems.
- Promote Japanese standards' conformity with international standards.
- Promote the acceptance of foreign test data, except where there exist compelling reasons not to do so, if the reliability of such data is confirmed.
- Simplify and speed up certification procedures.

It is very difficult to quantify the effect of these improvements. Although it is too soon to see results in actual trade statistics because implementation began after the new regulations were set in order last August, we are hoping that U.S. businesses will actively take advantage of the improvements.

As regards baseball bats, Worth Bat Company received the recommendation of the Amateur Rubberball Baseball Association and the Japan Softball Association on Oct. 19, 1983. Mr. Juer, the president of Worth Bat Company, said on Nov. 7, 1983, in a press conference in Tokyo that the Japanese baseball market had become entirely nondiscriminatory, and it was entirely up to the company's efforts whether it is successful or not in the future.

In the case of automobiles, however, I understand that Japan does not allow self-certification for safety standards. Doesn't this mean an extra burden on American cars, compared with Japanese cars exported to this country?

It is often said that every American car has to go through lot inspection at the Japanese port while Japanese cars can enter the American market freely. This statement is mistaken, misleading at best.

In the first place, Japanese cars are not allowed to enter the United States if they have not obtained the approval of the Environmental Protection Agency in advance with regard to its emission standards. In order to get the approval, Japanese car manufacturers bring several test cars to the EPA laboratory a few months ahead of their production. A number of engineers come with the test cars and work at the laboratory for testing.

As regards safety and noise standards, Japanese manufacturers study all different standards applicable in different states and produce cars that meet those standards. Although certification by the manufacturers themselves is accepted in the United States, the cars are made in the factories in Japan to meet the standards of each state.

Also, American officials occasionally visit factories in Japan for inspection. It is after all these steps that Japanese cars are allowed to enter this country by identification at customs without lot inspection.



PHOTO: JOHN WHITMAN

Yoshio Okawara is Japan's distinguished ambassador to the United States.

On the other hand, foreign cars can also enter the Japanese market merely by identification without lot inspection if they have what we call "type designation" in advance. At present, only Volkswagen has type designation. I understand American car manufacturers did not try to get type designation because it was too costly and time-consuming for the number of cars they thought would sell in the Japanese market. Some, I hear, are reconsidering.

And what has Japan done to solve this problem?

Last August, the Japanese government took measures to improve and simplify the procedure to get type designation. For example, tests by foreign institutions will be accepted wherever applicable. Officials will visit factories abroad for inspection, and once a factory passes inspection, certification by the factory will be respected.

The Land Transport Office used to require three cars for



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testing, but only one will be required now. Consequently, it is estimated that examination will be completed within 2½ months instead of seven months.

Before, it was said that unless one could expect to sell several thousand cars a year, the cost for the type designation would not pay. But now the cost has been drastically reduced, and perhaps it will pay if one can expect the sale of something like a thousand cars. This type designation includes the approval of safety standards. So whether self-certification is permitted or not should not be the main concern.

Why doesn't Japan change to self-certification?

The reason is rooted in our social concept of government. Generally, in the United States the less government intervention, the better.

But in Japan, if people learn in the newspaper one morning half a million cars of a certain type are recalled because some mechanical defects have been found, there will be an uproar, blaming the government for not preventing such dangerous cars from running in the streets.

In the case of disputes over product liability involving pharmaceuticals Japanese courts held the government responsible as well as the manufacturers and ordered both to pay compensation.

I am not saying which social system is more rational, but we cannot expect that a difference of this kind will be reconciled over a year or two. I might add that European countries do not have the self-certification system either.

While the import of Japanese automobiles created large unemployment in the U.S. auto industry, Japan complains that the import liberalization of beef and citrus would cause unemployment among Japanese farmers. How do you explain this?

In the 1960s the import of Japanese textile products was regarded as threatening the American textile industry, causing serious unemployment. Although there was an argument that the textile imports were in the interest of consumers, the Japanese government and industry recognized the seriousness of the social problem the excessive imports might cause in this country and agreed to restrain exports. Textiles are only one example.

It seems to me that what the Japanese are asking the Americans for is a similar cooperation in very exceptional areas.

Agriculture poses a very political problem in any country, including the United States. In the GATT also, agricultural products enjoy a little different status from industry.

In the United States, if beef imports exceed 8 percent of domestic production, the Beef Act triggers import restrictions. In Japan, total beef consumption is rather small, but imports already take up 30 percent of total consumption.

There are only 4.5 million cows in Japan, 70 percent of which are milking cows. There are 110 million cows in the United States, where the population is only a little more than double that of Japan. I don't think that the United States is expecting that Japan should do without a cattle industry at all. I hope you will understand the impact of imports on whatever cattle industry Japan has.

Japan is the largest importer of American agricultural products, the best customer by far for American beef and citrus. And Japan is discussing ways to increase U.S. access to the market.

What do you think about the view that the U.S. trade deficit with Japan is due to the undervalued yen?

There is no truth to the suspicion that Japan is manipulating to keep the value of the yen lower than it should be. The U.S. Treasury, the Federal Reserve Board and the General Accounting Office deny such suspicions. The mere fact that 40 percent of Japan's imports are oil denominated in U.S. dollars shows that a lower yen is against Japan's interest.

Fundamentally, we believe that the current exchange rate problem should be recognized as the result of a strong dollar, not a weak yen.

Japan is willing to cooperate with the United States in the effort to maintain the exchange rate of the yen consonant with Japan's economic fundamentals. During President Reagan's visit to Japan, Treasury Secretary Regan and Finance Minister Takeshita issued a joint announcement on the cooperation between the two governments in this respect.

What should Japan do to improve U.S.-Japan economic relations?

First, Japan should try its utmost to improve imports' access to the Japanese market. Secondly, Japan should do more in promoting investments in both countries. We welcome U.S. investment in Japan and we should invest more in this country.

Thirdly, perhaps we can do more in assisting U.S. exports to Japan. The Japan External Trade Organization has now assumed a new task—encouraging and facilitating imports. □

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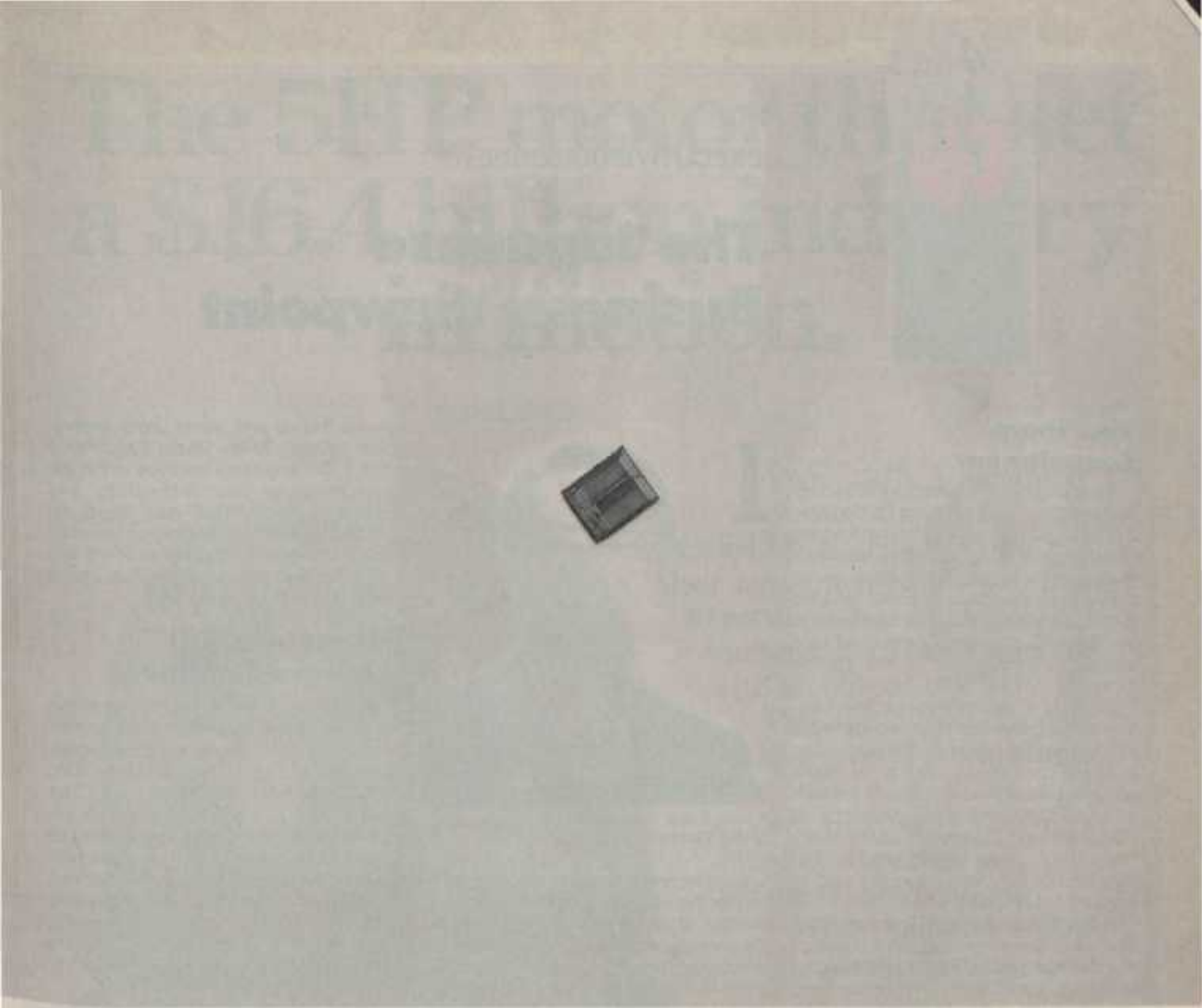
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JAPAN

EXECUTIVE DIALOGUE

The Japanese Business Viewpoint

The Sharp Commitment

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Sharp is a known leader in the electronics industry. We have worked hard to develop advanced technology and produce innovative products for home and industrial use. Our products are sold all over the world. Our philosophy of "Sincerity and Creativity" backs every one of our products and ensures that they be not only innovative but also of the very finest quality.

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Marketing Will Improve Conditions

At present, of the external changes confronting the Japanese automobile industry, trade friction is the most significant, according to Nissan Motor Co., Ltd., President Takashi Ishihara. The question of whether marketing can improve world trade relations is also an expression of the task for Japanese companies to become truly international.

Because of the sheer size of the auto industry in terms of production, exports, added value and employment, changes within the industry can have a great impact on a nation's economy.

In the case of Japan, the automobile industry accounts for about 10 percent of the total industrial output and about 20 percent of exports. It accounts for about 8 percent of value added and employs 10 percent of the work force.

Because of this strategic importance, automobile industries are the focus of attention by industrialized countries.

Consequently, when there is a change in the competitive situation among auto-producing countries and differences arise in the performance of their respective automobile industries, trade friction tends to emerge.

Trade friction centered around automobiles, incidentally, arose in 1973 and 1979, when the two oil shocks created an atmosphere of strong demand for fuel-efficient cars and lower prices.

Japanese manufacturers were fortunate, traditionally emphasizing smaller cars in accordance with Japanese traffic and conditions. In contrast, the "Big Three" American auto makers were delayed in responding to altered market conditions. Rising inflation and de-

SPECIAL ADVERTISING SECTION

The 5HP motor that set a $16.4 billion industry in motion.



It was 1910. A handful of young Japanese engineers led by Namihei Odaira put their heads and hands together to produce this simple piece of equipment, an electric motor with an output of 5 HP.

Perhaps only a modest achievement by world standards, but it was the first modern machinery ever produced by Japanese people to Japanese specifications.

What followed is history: Electric locomotives, home telephones and refrigerators, electron microscopes, bullet trains, integrated circuits, video tape recorders, mainframe computers, even complete power stations.

Today, Hitachi manufactures some 20,000 different electrical and electronics products. Original products developed from original technology.

That's the result of constant emphasis on R&D activities, involving the skills of some 16,000 researchers and an annual investment of over $780 million—nearly 5% of the company's $16.4 billion in annual sales.

And the original 5 HP electric motor? It's still running strong.

Just like the company that built it more than seven decades ago.

A World Leader in Technology

HITACHI

Hitachi, Ltd. Tokyo, Japan

pressed business conditions landed the U.S. auto industry in dire straits and caused considerable unemployment.

The United Auto Workers Union and other constituencies in the United States raised their voices to demand restrictions on Japanese car imports. This became a political issue; we sought a solution in voluntary restraints on exports for three years, beginning in April, 1981, to allow the American auto industry to regain competitiveness through self-help and internal revitalization.

In 1958 Nissan participated in a car show in Los Angeles with a sample product, but because our cars were not developed to meet road conditions in the United States, sales were about one car a day. Improvements were made not only to meet U.S. standards but also customer needs.

Between 1960 and 1963 sales reached 1,300 units yearly, then 13,000 in 1964-65. The key was the "Americanization" of our products. The sports car 240Z was designed primarily for the U.S. market, and in 1970 the company was selling 155,000 units. Recently Nissan established a separate company, in a suburb of San Diego, that employs Americans to design cars for the U.S.

In April, 1980, the company decided to build a light-duty truck production plant in the United States and established Nissan Motor Manufacturing Corporation U.S.A. In July of that year, $660 million



Takashi Ishihara, President Nissan Motor Co., Ltd.

was invested in production facilities at Smyrna, Tenn., where we plan to produce about 10,000 trucks monthly by mid-1984. Initial production began in June, 1983. The great majority of top and middle management are Americans.

In 1965 Japanese manufacturers sold only 300 trucks in the United States; by 1965 sales had grown to 7,000 units, rising to 63,000 units in 1970, 230,000 units in 1975, and half a million units in 1980. In 1982, following Detroit's entry into smaller truck production the previous year, the entire market had grown to 770,000 units per year.

In order to surmount trade friction it is imperative for Japanese enterprises to make their operations more international. To maximize international harmony, we can enter into joint ventures and capital and technological tie-ups.

One example is Nissan's relationship with Volkswagen. We propose to manufacture Volkswagen cars in Japan. In return, we hope Volkswagen will be willing to assemble our cars in another country to share technologies we do not have. By the end of the year we will produce the first Volkswagen Santana in Japan.

While working to achieve international harmony in the industry, still we must stress the importance of self-help efforts. Free competition alone can encourage industries to be more creative. Therefore, self-help effort is imperative.

A basic mission of our industry is devotion to research and development while improving production capabilities and streamlining the efficiency of distribution channels for the benefit of customers.

The necessity of strengthening an environment of free trade must be stressed here. Through harmonious cooperation and competition the world's automobile industries must be able to grow and prosper together. We must remove barriers to the movement of man, materials and ideas, and strengthen the GATT agreement through abandoning protective measures.

World Famous Soy Sauce Brings People Together

"We are a quiet, gentle company," says Yuzaburo Mogi, a managing director of Kikkoman Corporation, the internationally famous maker of brewed soy sauce that traces its family-owned heritage to 1630.

But a scant decade ago, Kikkoman's management turned its attention overseas, says Mogi, a direct descendant of the Mogi family that started the business in Noda, some 20 miles from Tokyo.

Mogi has seen his firm move in the last decade into foreign markets with decided success, particularly in the United States, where Kikkoman Foods, Inc., a subsidiary, began operating a soy sauce brewery in Walworth, Wis., in 1973.

Today the United States is Kikkoman's largest market, followed by Australia, the Scandinavian countries and West Germany. The company's latest push for more markets is in Asia itself, especially the ASEAN nations. The company plans to tailor its soy sauce to the taste of each nation. After that will come Europe.

The demand for soy sauce in Scandinavia is not surprising to Mogi, who has an MBA from Columbia University. "Scandinavians are like Americans in that they aren't food conservatives. The Japanese are becoming less so. For example, I have to take my children to Shakey's."

Counting on changing Japanese eating habits, Kikkoman has diversified. Soy sauce still accounts for more than 60 percent of sales, but Kikkoman subsidiaries operate a major Coca Cola franchise in Japan, own a major Japanese winery and chains of Japanese restaurants in Japan and West Germany, and packs Del Monte tomato products, Ragu spaghetti sauce, Ocean Spray cranberry products and Lea and Perrin's



Yuzaburo Mogi is managing director of Kikkoman's international operations.

Worcestershire sauce. Kikkoman owns the company which is the largest importer and distributor of Oriental foods in the U.S.

And there is a higher motive, Mogi says. Exporting and importing food exposes people to other cultures and brings them together, he says.

SPECIAL ADVERTISING SECTION



TEAMWORK.

They say two heads are better than one. Toshiba believes they're right. We know that together, we can do more than we can alone.

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In Touch with Tomorrow

TOSHIBA

TOSHIBA CORPORATION TOKYO JAPAN

Nomura's Global Information System

Because of the existing economic misunderstandings in a world that is buffeted constantly by sudden changes in its political, commercial and social environments, the Nomura Group has developed CAPITAL (Computer-Aided Portfolio and Investment Total Analysis), an on-line service linking Nomura's worldwide network with investors. A huge investment data bank (on economic, financial and securities information) is contained in an enormous computer in Tokyo. Nomura Research Institute (NRI) is responsible for collection and maintenance of the data bank.

CAPITAL, a 24-hour, 365-day-a-year service, is divided into four operations:

Economic Environments. Important economic information and analysis is stored and available for immediate call-up. This includes information on GNP statistics; economic and business fluctuation indicators; household expenditures and savings; industrial activities; international trade and balance of payments; labor market statistics; prices; public finance, money and banking; foreign exchange rates; economic performance and potential growth; and energy.

Securities Analysis. This operation provides yield-curve and investment returns comparisons; bond and money market statistics; yield calculations on securities; analysis of investment merit differentials among given securities; and convertible debenture statistics.

Equity Analysis. This portion includes a monitor of world stock markets (24 nations) on a daily basis, adjusted for changes in foreign exchange rates; comprehensive statistics from Japanese companies and investment opinions from Nomura's analysts; stock prices from Sydney-Melbourne, the Far East (Hong Kong), and Singapore and opinions by Nomura's analysts.

Portfolio Management. This operation is divided into a report on accounts (income statement and balance sheets) and portfolio analysis, which includes risk return analysis of investments in financial markets; international diversification asset mix, using optimization models; risk return statistics for individual Japanese stocks; and portfolio diagnoses (TIM-weighted, value-weighted, standard deviation, etc.).

Hitachi: No Place For Complacency

In a joint message to stockholders in 1983, Hitachi Chairman Hirokichi Yoshiyama and President Katsushige Mita summed up the trade situation:

"Negative economic conditions at home and throughout the world plus intensified competition and the increasingly troublesome problem of trade friction mean there is no place for complacency."

They added:

"In order to cope with an increasingly harsh international business environment, Hitachi has moved far beyond the mere export of products. We actively search out opportunities to cooperate with leading overseas companies in technology exchanges, the establishment of joint ventures, and the reinforcement and expansion of local production facilities and sales networks.

"During fiscal year 1982, ending March 31, 1983, we licensed patents and know-how to numerous firms throughout the world. We are also internationalizing and diversifying our financial activities. One important step in this direction was the listing of Hitachi shares on the New York Stock Exchange in April, 1982.

"A major objective of our program to improve the company's financial position has been to increase shareholders' equity, which we succeeded in raising to 31 percent from 19 percent. We will continue to increase shareholders' equity through a flexible financial strategy tailored to the fund requirements of the Hitachi Group. We are confident that every one of our divisions has excellent growth potential. We have made it our objective to tap this potential through efficient and effective use of Hitachi's organizational capabilities to achieve still higher rates of growth."



This Hitachi multi-purpose robot can perform a variety of industrial tasks.

As an international organization, Hitachi is committed to spreading the benefits of advanced technology.

Hitachi made steady progress in its technology export and exchange activities. During the last year, these activities have included licensing of robot, MOS IC and power-transformer technology to U.S. and British companies.

Currently, Hitachi has 26 overseas subsidiaries and affiliates that manufacture electrical, electronic and consumer products, including newcomer Hitachi Semiconductor (America), Inc. With the strong demand for MOS memories, the future is bright.

Over the past few years, Hitachi's international financial activities have increased. For example, in April, 1981, Hitachi issued $150 million in convertible debentures with Triple A ratings. Then in March, 1982, it issued 5 million American depository shares representing 50 million shares of common stock.

In its international activities, Hitachi continues its technical cooperation and joint development projects. Hitachi strengthens the international ties of economic and cultural cooperation.

Research and development has always been the driving force behind Hitachi's growth.

Today, Hitachi's highest priority research programs are devoted to energy, electronics and system technology.

Solar power studies have already advanced to the point of setting up a pilot plant for coal gasification as part of a major governmental effort. And investment in nuclear fusion research may eventually contribute to a long-term solution to the growing energy problem.

Hitachi's R&D in electronics has led to progress, computers and semiconductors. An example is an all-solid-state camera with a single-chip MOS imager, which will help expand the home video entertainment field.

Hitachi has also been able to make its years of technological experience in developing the most sophisticated systems technologies available anywhere.

EXECUTIVE DIALOGUE *continued on page 46*

SPECIAL ADVERTISING SECTION

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JAPAN

THE SOGO SHOSHA STORY

Trade Firms That Bridge the World

By Barry D. Steben

JAPAN'S sogo shoshas, or general trading companies, have grown along with the development of the Japanese economy into global corporations bridging cultures and contributing in innumerable ways to the world economy.

Involved worldwide in virtually every kind of commercial transaction, reaching far beyond trade itself into resource development, finance and the organization of business and industrial projects, they offer clients an unparalleled range of information, expertise and contacts.

The role of trade intermediary is the core of sogo shosha business activity. About 55 percent of Japan's exports and over 65 percent of her imports pass through the sogo shoshas, which also channel an increasing volume of offshore trade. Their global operating scale permits risk absorption, market expansion and coordination of suppliers and buyers for maximum mutual advantage.

The total sales of the sogo shoshas in fiscal 1982 reached $362.6 billion, an amount equivalent to more than a third of Japan's gross national product.

The sogo shoshas' involvement in offshore trade in particular has risen precipitously in the past decade: from $2.41 billion (4.8 percent of total transactions) for the nine largest sogo shoshas in 1970 to $49.20 billion (14.2 percent) in 1982. Domestic business now comprises about 41 percent of their total transactions. Exports account for about 21 percent, imports 24 percent.

Worldwide Networks. During the 1960s and 1970s, the sogo shoshas' leadership role in Japan's export drive and her corresponding effort to secure stable supplies of industrial raw materials led them to move beyond a straightforward trading role into large-scale involvement in a wealth of business fields aimed at the creation and support of long-term trading activities. This demanded the establishment of extensive overseas office networks, backed by a widening international circle of subsidiaries, affiliate companies and joint ventures for specific business undertakings.

Particularly in the United States the sogo shoshas have cultivated a strong presence, enjoying wide relations with American business through an array of affiliates. Approximately 10 percent of American exports are handled by sogo shoshas.

The overseas affiliates of the sogo shoshas have consistently concentrated more on export than import trade, contributing significantly to the improvement of Japan's trade balance with the United States and many other countries. For instance, U.S. affiliates of the nine largest sogo shoshas conducted trade totaling $22.7 billion and import trade totaling $16.5 billion in 1981, thus contributing $6.2 billion to America's trade balance. The same sort of proportion holds if we look at their trade with Japan alone.

Promoting New Trade. The sogo shoshas have been heading import promotion missions to the United States.

Operating in a Global Arena

• In the early 1970s, American oil companies discovered two major gas fields in Indonesia, and one sogo shosha entered into what became the world's biggest liquid natural gas project. Thanks largely to this company, the Indonesian field has become Japan's largest source of LNG.

With approval from the Indonesian government, a consortium was formed with the sogo shosha as overall coordinator, organizer and adviser. It consisted of the Japanese buyers, Indonesia's national oil and gas company, and Mobil and Huffco of the United States as producers. With investment financing of $4 billion arranged by the sogo shosha, the gas fields were developed, pipelines, liquefaction plants and tanker berthing facilities were constructed, and seven tankers were built in the U.S.

• With increasing disposable income and leisure time, Japanese consumers' demand for quality is spurring the growth of a wide range of consumer-oriented industries. With housing a consistent top priority, the real estate resale business has enjoyed a strong rate of expansion.

Recognizing an opportunity, a U.S. firm, the Century 21 Real Estate Corporation, signed an agreement in June, 1983, with one sogo shosha to establish more than 500 offices in Japan within a five-year period. The agreement provides the sogo shosha a franchise on real estate offices under the Century 21 name and guarantees for Japanese franchise holders the training, management and marketing programs offered by the company in the U.S. and Canada.

• One sogo shosha has established a joint venture with IBM Japan to serve as the sole authorized dealer in Japan for IBM information products. Also, through another tie-up with ComputerLand Corporation, U.S.A., the sogo shosha has been rapidly opening franchise outlets throughout Japan. These shops offer consultations by well-trained sales engineers aimed at meeting the range of customer needs in personal computer systems and software, setting new industry standards for knowledgeable sales and service.

Abroad, the same sogo shosha has enjoyed brisk growth in sales of computers, office automation equipment and broadcast systems to China. In recognition of its Chinese market expertise, it was also selected for sales agent in China for IBM small-office automation equipment.

SPECIAL ADVERTISING SECTION



Sogo shoshas—general trading companies—play a vital role in Japan's economy. They have become increasingly active overseas as well, through subsidiaries, joint ventures and affiliate companies.



Their unparalleled understanding of Japanese business, market conditions and distribution channels makes them the ideal partners of firms wishing to sell their products in Japan.

Many of those who have tried to go it on their own have met with failure because of the peculiarities of the Japanese business world. And yet, operating typically at profit ratios of 1.7 to 2 percent of sales, the sogo shoshas are able to offer their services at remarkably low cost.

With changes in the composition of world trade, the sogo shoshas are expanding their activities in business areas outside their traditional focus on high-volume, low-commission supply and marketing of raw materials, intermediate products and capital goods. This means in particular growing involvement in high tech and service industries, often in the form of joint ventures with foreign firms.

In high tech imports to Japan, sogo shoshas may serve as sole agents or assist a foreign firm or procure machinery abroad according to customers' specifications, or serve as intermediary for technical agreements.

Another type of arrangement is the joint establishment of retailing chains and their supply networks. For instance, sogo shoshas have been instrumental in the success of Kentucky Fried Chicken and Dairy Queen chains.

Technology Exchange. Sogo shoshas make important contributions to the flow of technology and information.

For example, efforts to create long-term demand and supply in natural resource development led to their involvement as overall organizers, coordinators, planners and investors in complex multilateral trade-development projects that involve companies in a number of industrialized nations and make significant contributions to local employment.

Finance and Investment. The sogo shoshas' success in the international arena comes from their vast scale of operation, enabling them to pool shipments, seek out the best prices, guarantee stable supplies and markets and absorb risk. It also comes from their vast capabilities in the financial area.

Often more informed than commercial banks and thus better able to assess risk, they act frequently as middlemen between the banks and their corporate clients in the supply of loans, loan guarantees, equity investment and venture capital. They hedge foreign exchange risk through contracts denominated in the major international currencies, enabling them to offer stable forward exchange rates, often up to one year, generally not available on foreign exchange markets.

Now accounting for about 10 percent of Japan's overseas investments, the sogo shoshas are moving from concentration on natural resources development to greater investment in processing and direct production facilities in export markets. They are also helping Japanese manufacturers establish production in export markets, for cost advantages, adaptation to trade restrictions and greater contributions to employment in other countries.

Interdependence. Japanese general trading companies have perhaps the most acute awareness of the degree to which nations have become interdependent. This understanding inspires a responsible approach to trade development that takes account of the problems and needs of all parties involved. With their breadth of experience, direct knowledge of local conditions, efficient information networks and international clientele they are also equipped to anticipate and avert trade-related problems before they arise, and deal with them effectively when they do.

In a rapidly changing global economic order, Japan's sogo shoshas are seeking new areas of opportunity and service and in the process are playing an increasingly dynamic role in the international business sphere. □

16 Major Firms

Telling the story of the Japanese trading companies' contribution to the world is the task of the Sogo Shosha Committee of the Japanese Foreign Trade Center, whose members are:

Chori Co., Ltd.; C. Itoh & Co., Ltd.; Itoman & Co., Ltd.; Kanematsu-Gosho, Ltd.; Kawasho Corp.; Kinsho-Mataichi Corp.; Marubeni Corp.; Mitsubishi Corp.; Mitsui & Co., Ltd.; Nichimen Co., Ltd.; Nissho Iwai Corp.; Nozaki & Co., Ltd.; Okura & Co., Ltd.; Sumitomo Corp.; Toshoku, Ltd.; and Toyo Menka Kaisha, Ltd.

JFTC's address: World Trade Center Bldg., 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo, 105. Tel. (03)435-5952. Branch: Dai Bldg., 3-6-32, Nakanoshima, Kitaku, Osaka, 530, Japan. Tel. (06)441-1247.



BARRY D. STEBEN *is a writer interpreting Japanese business for Overseas Data Service, a Tokyo-based company.*

SPECIAL ADVERTISING SECTION

JAPAN

NIPPON TELEGRAPH & TELEPHONE PUBLIC CORP.

Japan's NTT Seeks American Products

THE SECOND largest telecommunications system in the world—after AT&T—has opened its doors to U.S. suppliers, and the results have been dramatic.

In fiscal year 1983 Nippon Telegraph & Telephone Public Corporation will contract for 33 billion yen worth of equipment from U.S. firms. All foreign procurement will amount to 35 billion yen.

While this is still a modest 8 percent of the total 450 billion yen in telecommunications equipment procured annually by the sole Japanese domestic phone company, it represents a quantum jump from the 3.8 billion yen spent on foreign source procurement in 1980, of which the U.S. portion was 3.2 billion yen.

Since 1981, when NTT introduced new procurement procedures to comply with the GATT Code on Government Procurement and the Japan-U.S. Agreement, there has been a tenfold increase in foreign procurement. But that growth isn't likely to continue at the same pace.

"I expect purchases will level off for NTT," says Ichio Kata, director of international procurement. "But it will be determined by the competitiveness of foreign suppliers. The customer-provided equipment market is wide open, too."

In Japan there is a $1.5 billion interconnect market separate from that involving NTT procurement. As in the United States, the phone company owns the wire leading to the customer's terminal. The customer must lease at least one NTT hookup but is free to use any approved unit for further hookups.

According to NTT officials, in the interconnect market the customer can directly purchase from the manufacturer such terminal equipment as the key telephone system, facsimile equipment, modem and the PBX. The only requirement is that the equipment meet NTT type-approval inspection, a responsibility given the organization by the Japanese government. Products that pass the type-approval inspection can be sold freely in Japan.

The saga of this opening of the market to foreign suppliers testifies to the changing trade relations between Japan and the rest of the world. The vigor with which NTT has pursued its new procurement activities has been impressive.

"NTT, a public corporation established in 1952 under Japanese law, is obligated to provide the Japanese public with high-quality, reliable telecommunications service," says Hisashi Shinto, president of NTT.

Writing in the NTT Telecommunications Bulletin in the summer of 1982, Shinto said: "As we move toward a more sophisticated communications network, it is vitally important that we seek opportunities to acquire cost-effective and highest quality products available from manufacturers the world over."

In June, 1981, NTT held a five-day orientation program in Tokyo to acquaint American firms with the new procurement procedures. It later opened a New York office and began publishing and distributing English language procurement guidebooks and other reference materials. NTT held seminars in Tokyo, Washington and Los Angeles and dispatched missions to the United States, Canada and Western European countries.

By the autumn of 1982 NTT was able to announce that more than 20 foreign firms were selling to Japan, including such major corporations as Motorola (pocket-bell pagers) and AT&T (echo cancelers for satellite transmissions). Also, Motorola had passed all necessary document evaluation for selling its mobile telephone equipment to NTT. In the interconnect market NTT listed ITT, Rolm Corporation, Paradyne Corporation and Plantronics as successful providers.

A year later NTT added these U.S. firms to its list: Scan-Optics, Hewlett-Packard, Verbatim, Applicon, Gould, Simbolics and MTS Systems. Since then more U.S. manufacturers have been added to the list of suppliers.

Despite its diligent missionary work, NTT found itself beset with problems and misconceptions. And there was the language problem. When asked if it was



Japan's public telephones, color-coded for special use, are but one example of NTT's determination to give the nation the most modern system in the world.

SPECIAL ADVERTISING SECTION

all right to use English language materials, NTT responded:

"NTT is trying to use English as much as possible when answering foreign suppliers' inquiries. However, unfortunately, not many NTT staff members have an in-depth English language understanding. Thus NTT requires those foreign firms making application or submitting documents to use Japanese language when they make submissions in order to assure efficient and accurate procure-



Ichio Kata is the director of NTT's international procurement department.

ment operation. We should point out that the use of the purchasers' home country mother tongue is permitted by the GATT Code on Government Procurement."

But six months later NTT announced it would accept applications in English.

Another complaint was the necessity for bidders to tender their proposals to Japan. On March 10, 1983, NTT began accepting tenders at the New York office.

STILL ANOTHER complaint involved the period of time between the solicitation of bids through a public notice and deadline for applications.

NTT began its foreign procurement process on a basis of 40 days, but announced on March 10 that while the time between the offer announcement and the deadline for applications was normally from two to three months, NTT would extend this period an extra month for products that were of great interest to foreign suppliers, such as facsimile equipment, PBX, modems and data terminal equipment.

NTT later modified five more of its procedures in response to suggestions from foreign suppliers. The company:

- Introduced more flexibility in the formulation of requirements, which had been based on nationwide uniform marketing, maintenance and operational



Hisashi Shinto is president of Nippon Telegraph & Telephone Public Corp.

systems, especially for terminal equipment such as telephone sets, with added emphasis on functionality and performance.

- Advised that the scale of tender would be expanded by ordering several years' supplies instead of one year at a time, thus increasing potential contract value and providing more incentive for foreign firms to seek NTT contracts.
- Promised faster response to suppliers' applications.
- Began making simultaneous announcements of procurement offers in Kampo, Japan's official gazette, and U.S. counterparts, such as the Commerce Business Daily.
- Agreed to change contract provisions, then based on Japanese practices, to conform with international practices.

In June, 1983, NTT also introduced new measures to promote U.S. companies' entry into the Japanese customer-provided equipment market, including reductions in the volume of required documents, modifications of measurement requirements for speech quality and the simultaneous issuance of technical requirements in Japanese and in English.

By October, 1983, the NTT program was running much more smoothly than had been expected. On a visit to the United States last fall, Haruo Yamaguchi, executive vice president of NTT, announced that 43 U.S. firms had qualified technically to provide products to NTT and that NTT purchases from U.S. firms in fiscal 1983 would amount to more than $140 million.

The success of NTT's program also was driven home to Ichio Kata, NTT's director of international procurement, at a successful meeting with American firms and telephone and suppliers associations in St. Louis this past September. The participants had this evaluation of NTT procurement:

- Japan is the only country in the world that has fully opened the telecommunications market.
- NTT has done more than required by the U.S.-Japan agreement, including accepting documents in English and simplifying the documents required to be submitted.

And they had this advice for U.S. companies:

- U.S. telecommunications equipment is fully competitive in both quality and price. U.S. companies should make more strenuous efforts, therefore, in exporting to Japan.
- It is important for the supplier to make aggressive approaches to NTT at an earlier stage of the development, much the same as is done in selling to the U.S. Defense Department.
- Suppliers must keep in mind the differences in language, culture and decision making when they try to enter the Japanese market.
- The NTT market has become easier for foreign firms to enter, but the supplier is required to produce high-quality products and must modify them to meet NTT requirements to gain long-term sales commitments.

Kata, proud of the progress of NTT's program, says language should be no barrier to interested U.S. firms. His organization has interpreters, and it is not necessary to retain a Japanese firm to compete for an NTT contract.

"If you have good quality and price, come to NTT," he says. □

Where To Go For Answers

Tokyo:
International Procurement Department
Procurement and Supply Bureau
Nippon Telegraph & Telephone Public Corporation
5-3 Ohtemachi 1-chome, Chiyoda-ku
Tokyo 100, Japan.
Tel. 03-509-8488
Telex: 222-5300

New York:
NTT
Room 2905
Pan American Building
200 Park Avenue
New York, N.Y. 10166
Tel. 212-867-1511

SPECIAL ADVERTISING SECTION

EXECUTIVE DIALOGUE continued from page 40



Hisashi Kubo, President
Ricoh of America, Inc.

Free Trade Is The Solution

Free trade is the long-term solution to current Japanese and American trade difficulties. Ultimately it is the free market that is the best arbiter and not the governments that must decide what happens in the marketplace. But for the marketplace to operate equitably, trading partners must understand each other very well. Trading flourishes where markets are open and cultures are similar. Of course, Japanese and American cultures are different in many ways. It has taken Japanese corporations many years to understand the American market and how best to penetrate it. It is only relatively recently that U.S.-based corporations have begun to learn how to penetrate the Japanese marketplace.

Japanese people like Western and, in particular, American products. As U.S. firms learn to better capitalize on this preference, Americans will sell much more in Japan. Already there is a high degree of market share penetration by U.S.-based foreign affiliates in a wide variety of Japanese markets.

For example, Kellogg Company enjoys a 34 percent market share in breakfast cereals and Coca-Cola Company a 60 percent share in carbonated beverages. In industrial products, Caterpillar Tractor Company holds a 43 percent share in bulldozers and track-type loaders, and Xerox Corporation has built a 20 percent share in copiers.

In other consumer products, approximately a quarter of the market in polishing waxes is held by S.C. Johnson and Son Inc., and Owens Illinois Inc. has a 60 percent share in stem wine glasses. The list of important market shares held by U.S.-based firms is long. These firms have achieved success in a marketplace because they understand how to market in Japan.

At many levels Japanese and American trade relations can be characterized as moving along parallel paths of understandings and misunderstandings. The understandings are helpful in achieving improved relations. Misunderstandings deny us opportunities to move forward constructively toward solutions of our differences.

I am concerned by the misunderstandings I think American business people have about how the Japanese economic system operates. For example, in my travels around the United States I find that many feel Japanese companies compete unfairly, because Japanese firms form associations under the auspices of the government. I am not sure where this notion came from, but it is simply not true. It is my experience that the Nissans, Sonys, Panasonics, Ricohs and Matsushitas receive no benefit or assistance from the government. In exceptional cases, the Ministry of Industry and Trade may draw several companies to form a research and development group in highly specialized areas such as development of very large-scale integrated circuits.

Overall, I am optimistic that our current trade imbalances will gradually disappear. As mentioned, the improvement in U.S. corporate appreciation of how to market in Japan will be an important contributing factor. In addition, there is a growing tendency on the part of Japanese corporations that market overseas to make their products locally. There are two principal reasons for this. One is simply economic: It reduces the cost of shipping and distribution. Second, local manufacture places profits into local areas, and this is vitally important to a long-term market strategy in any nation.

At Ricoh, we assemble almost 40 percent of our U.S.-marketed products in the United States, and we are currently planning to increase our commitment to manufacturing in the United States. Indeed, in the near future I expect we may very well be exporting products manufactured in the United States to Japan.

Toshiba Progresses As An International Firm

At present billions of dollars are being invested by Japanese companies in different sectors of the American economy, thousands of jobs for Americans are being created, and a great deal of technical assistance and technology is being transferred.

Toshiba Corporation is one of those with aggressive promotion of technical tie-up and assistance to U.S. enterprises in the three fields of its business—electronic components and industrial electronics, heavy-duty electrical apparatus and consumer products. For years, a top priority has been the development of nuclear power and other energy resources and the high technology of E and E—electronics and energy—that holds great growth potential. Its technologies are basic to heavy-duty electrical apparatus and consumer products.

In electronics, Toshiba has exchanged the technology of advanced LSI with Zilog, Inc., of the U.S. Toshiba provides Zilog with fabrication processing technology for CMOS LSI and receives software of CPU from Zilog. Also, it has transacted business with Ford Motor Co. for more than 20 years, and presently supplies Ford with an electronic module for EEC (electronic engine control) that uses a microcomputer. Also, Toshiba, as one of the world's leading manufacturers of medical equipment, is proceeding with the joint development of an advanced concept totally-digital im-



Shoichi Saba, President
Toshiba Corporation

aging system (TDIS) in cooperation with the University of Arizona.

In 1980, Toshiba established Toshiba Semiconductor (USA), Inc., in Sunnyvale, Calif. With 70 percent of the world's market share for memory ICS, Toshiba has established a production system for 2.5 million semi-conductors per month, and produces ICS centering on those for memory. This has created jobs for 450 employes.

In the heavy-duty electrical apparatus field, together with General Electric, Toshiba develops the A-BWR (advanced boiling water reactor). The project is designed to introduce and operate the A-BRW in a nuclear power station for the first time in the world. In Houston, Toshiba International Corporation (TIC), established in 1980, has about 300 employes producing motors at a rate of 2,000 units monthly.

In consumer products, Toshiba is in-

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volved in the joint research and development of DSTs (distributed subscriber terminals) with ATC (the American Television and Communication Corp.).

The DST is an addressable system for CATV, and through this activity Toshiba pursues high technology to meet the new media age.

In 1978 Toshiba began production of color TV sets in Lebanon, Tenn. In 1981, at the same place, Toshiba started production of microwave ovens, and presently about 500 employes are engaged there in production of color TV sets and microwave ovens. The TV sets produced in this plant incorporate the FST (flattest and squarest tube), which Toshiba first developed, and the plant offers the most advanced TV sets in the U.S. market.

Toshiba is the world's leading producer of cathode-ray tubes and magnetron tubes—the heart of microwave ovens. Toshiba, with 103,000 employes, $2.4 billion in sales in 1982 and 108 years of technical innovation today plays a vital role as an integrated electric and electronic manufacturer. In the future, through local production and joint ventures in the United States, Toshiba expects further progress as an international company.

Matsushita's Goal—To Serve Society

In a tiny enterprise in a suburb of Osaka, Japan, a young man began selling adapter sockets designed and made in his modest home with the help of his wife and brother-in-law.

The 23-year-old Konosuke Matsushita had sunk every cent he could raise—100 yen, then equal to about $50—into the venture.

The improved two-way socket he designed was better than anything else on the market. A trickle of orders became a flood. The Matsushita miracle had begun.

Today, this company, born from one room of a man's house, stands proudly as a global giant doing business in more than 130 countries, with over 145,000 employes and $14 billion in sales. And the company's corporate philosophy, dating back to 1918, remains unchanged: To serve society by making the highest quality goods available at the lowest possible cost.

Known in the United States by products bearing such names as Panasonic, Quasar and Technics, Matsushita Electric Corporation of America has grown from a three-man operation in New York



Keiichi Takeoka, President
Matsushita Electric Corp. of America

to one of America's leading electronics companies. In 1982 it had more than 7,000 employes and $2.6 billion in sales.

Matsushita in America is an unusual operation that combines Japanese and American expertise. Just as the mixing of two pure metals can produce a multi-strength alloy, Matsushita blends the strengths of both Japan and the United States.

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RAPID EXPANSION OF THE JAPANESE SECURITIES MARKET

In 1982 Japan's share of the world's securities market rose to 17.4%, second only to the U.S., while market capitalization is increasing by 17% annually compared to 5.1% in the U.S. Financial assets held by individuals continue to grow and the institutional investor base to expand.

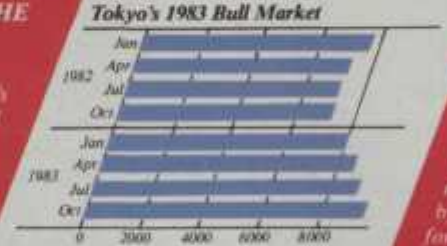
VIGOROUS FOREIGN PARTICIPATION

The volume of foreign investment in Japan has jumped since 1982. As economies improve in the industrialized nations, money managers are relying on international diversification for safer, sounder investment. Japan has the free world's second largest economy, and annual growth through to 1990 is projected as a steady 4%.

ATTRACTIVE INVESTMENT TARGETS

High-tech companies are one of many attractive investment targets in Japan.

Tokyo's 1983 Bull Market



Monthly averages (in yen) for the Nikkei-Dow Jones Average Data: Nikkei-Dow Jones

The Foreign Investment into TSE



Monthly net inflow of foreign investment (ten million) into the Tokyo Stock Exchange first and second sections Data: Tokyo Stock Exchange

Japan leads in electronics, for example, a rapid growth sector, and in automation. The biotechnology and fine chemical sectors also offer high growth potential. And there is the automotive industry. The bond market offers liquidity and accessibility. About 70% of all stocks in Japan are now owned by institutions, but individuals account for 60% of trading volume. An attractive tax exemption system draws many U.S. investors to Tokyo.

NOMURA: IN TUNE WITH THE TIMES

With 106 Japanese branches and 29 overseas offices Nomura is Japan's largest securities firm. In July 1983 Nomura expanded CAPITAL, its investment information system, to its overseas network, linking Nomura Securities, the Nomura Group and its overseas bases on-line to speedily provide clients anywhere with any information. If you want more information, consult your nearest Nomura office.

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Information on the Japanese Securities market

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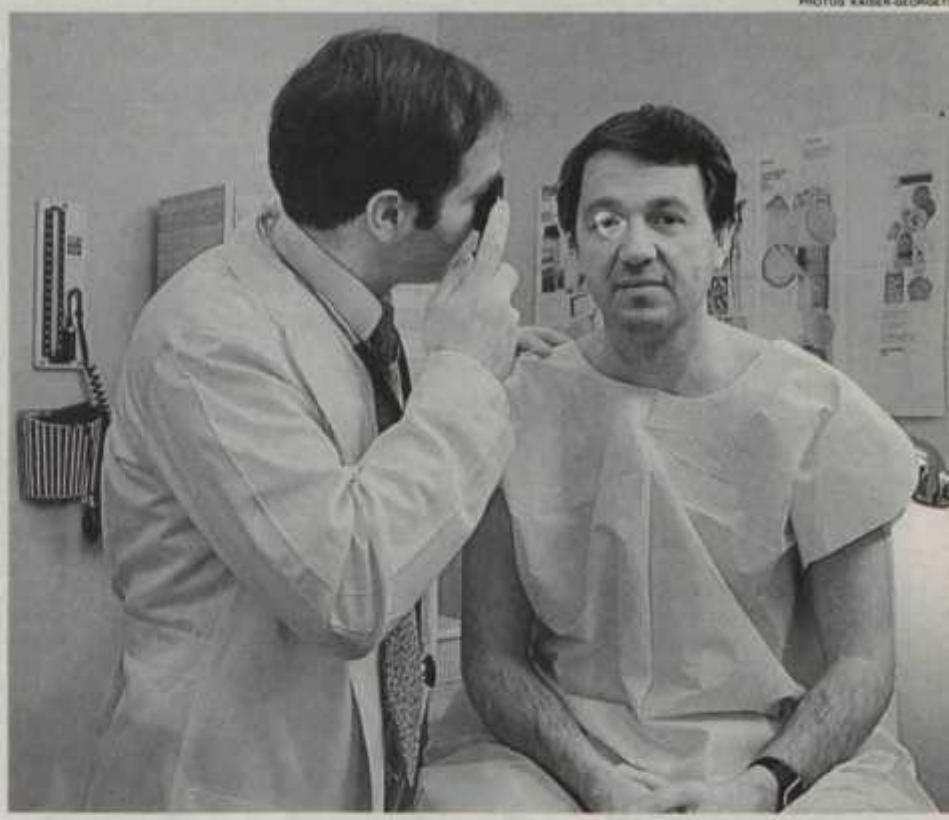
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Curing Your Company's Health Care Headaches

How to cut medical costs? Here is one executive's prescription.

By Richard G. Wardrop

HEALTH CARE is like any other product or service a company buys: The cost goes right to the bottom line. My employer, the Aluminum Company of America, could have doubled its profits last year if it had been able to reduce its medical costs just 10 percent. Net profit was $10 million, but health care costs were more than $100 million.

The business community has faced a 15 to 20 percent rise in medical costs annually since 1975. In the long run, the cure is to shrink the system—to reduce the number of health care providers. Currently, there are too many medical facilities, and prices are being set to support them.

But, based on ALCOA's experience, a company can cut its costs substantially without a change in the system. Here are effective cost control steps that can be taken immediately:

Encourage shorter convalescences. ALCOA expects to save more than $2 million this year because it changed its attitude toward disability—time not worked because of sickness or accident. Most companies have not even considered this strategy, which can be followed without negotiating with a union or revamping your benefits plan.

Our attitude used to be that employes should not come back to work until they could do the same job and as much work as when they left. Now they are encouraged to return as soon as it is safe for them to do so.

For example, if Joe Doakes had a deep cut on his left arm that was healing well, he could return to work doing something that did not require much use of the arm, such as pressing buttons. You could use Doakes to fill in for a vacationing employe who normally does that job—thus saving both the cost of hiring a temporary replacement for the vacationer and the cost of paying disability for a worker sitting at home.

Disability is expensive: We spent $12.7 million on it last year. ALCOA pays at least 65 percent of an employe's regular employment cost when he is sitting at home and another employe is doing his work. A convalescent could be off for weeks longer than if the attitude were to get him back on the job, doing special assignments if necessary. A number of experts have told me that recuperating employes often are better off at work than they are sitting at home.

The key people to help you control disability costs are the plant manager, the plant physician and the group benefits administrator.

The physician, for instance, should be willing to monitor treatment by your employe's personal doctor. If employe John Smith has pneumonia, your plant physician should call Smith's doctor to suggest a date when Smith should be back to work if there are no complications. The plant physician is not telling the other doctor what to do, but he is nudging him by applying a little indirect pressure.

ALCOA brought the managers of its plants with the worst and best disability records together in December, 1982, for a two-day meeting. They shared experiences, defined responsibilities and identified problems.

After the meeting we set a corporate goal of reducing our disability costs 10 percent. It turned out to be too modest. In a matter of months, the number of people drawing such benefits dropped as much as 57 percent at one of our 17 plants. We expect to save 20 percent on disability for 1983.

Diagnose local medical services. Start your own "utilization review" program, perhaps with other area companies. What is the rate of use of hospitals and medical services in your area? Are people being hospitalized when they should not be or having surgery in hospitals that could be performed in a doctor's office? What is the average length of hospital stays? How long are patients in the hospital before surgery is scheduled?

You should determine your area's "appropriate medical protocol"—a fancy name for accepted medical practices. For example, is it considered safe and reasonable to release a patient from the

RICHARD G. WARDROP *is general manager for compensation and benefits at ALCOA, the Pittsburgh-based aluminum company.*



Use of a health maintenance organization is one way to make employe medical care more economical. Getting a physical and undergoing minor surgery are members of the Kaiser-Georgetown HMO in the nation's capital.

hospital three days after a certain kind of surgery? Armed with this information, you will be in a good position to question a hospital that routinely releases patients four days after that kind of surgery.

Make employes chip in. You may be able to do this yourself, depending on whether you have a union. My company and many others made a serious error in giving employes first-dollar coverage—free tickets for health care.

More and more companies are now changing their benefit design to require that employes pay part of the cost. Some of this is simply cost shifting—putting in deductibles or copayments and requiring employes to pay, say, 10 percent of the cost of their insurance premium. But also, employes' behavior changes. An employe will think a lot harder about whether to have surgery in a hospital or in a doctor's office if he is paying a percentage of the total cost.

U.S. Steel recently put in a deductible for the first day of hospitalization in plans covering its nonbargaining salaried employes. Hospitalizations per employe dropped 18 percent in the first six months.

You should also find out whether you can provide the same package of benefits less expensively. Check into Blue Cross and other plans.

These strategies, as helpful as they are to individual companies, probably will not cure the health care system's underlying problems. But there are additional steps that a firm can take to contribute to the solution:

Spur competition. Health maintenance organizations are among the best tools for stimulating competition and holding down costs. Participants in HMOs pay a set fee in advance for any services rendered, replacing our current perverse system of full reimbursement for services no matter how much they cost.

Also promising are IPAs—independent practice associations—in which physicians see patients under HMO ground rules but also retain some private patients.

Can you offer your employes membership in an HMO or IPA as an alternative to conventional health care plans?

Support prospective pricing. This strategy may be hard for the business community to swallow because it is a regulatory one. Under prospective pricing, hospitals are paid a fixed fee for certain types of medical care. If a procedure costs more, the hospital absorbs the loss. This method of payment seems to be a necessary step in the transition toward free-market competition.

Educate your employes. Most companies now realize that 30 to 50 percent of their health care costs result from what employes and their dependents have done to themselves: smoking, drinking, overeating, stress. Most large firms are turning to health education—teaching employes how to change their lifestyles.

Programs to stop people from smoking have been well worth their cost. About half of the smokers we talked to have been willing to go to a meeting—on company time—and about 30 percent of these employes have quit smoking for at least a year.

Like the causes of ill health, the health care problem has many facets. But you, as an individual business owner or executive, can help solve it. □

To order reprints of this article, see page 69.

A Security Fund for Employes

ALCOA has concocted a benefit plan that may be just what the doctor ordered for a bad case of bloated costs. The plan, accepted by the Aluminum, Brick, Glass and Clay Workers' union in negotiations last May, has two complementary parts, both provided by the company. The first is health insurance with a $100 deductible and 20 percent copayment by the employe of medical costs up to a maximum of $700, after which all costs are fully covered. The second is a $700 "employe benefit security" fund.

Employes can be reimbursed from the benefit security fund for deductibles, copayments and other items, such as premiums for health maintenance organizations. They cannot withdraw less than $200 at a time, and the payments will be tax-free if they are used for qualifying medical expenses. If an employe withdraws less than $700, he will get a year-end check for the balance, which will be considered taxable income.

The plan, scheduled to take effect in June, is designed to nudge employes to make economical health care decisions. For example, an employe's wife who has to have some wisdom teeth pulled might spend two days in the hospital at a cost of $800 under the current plan. But because the employe will be paying 20 percent of the cost under the new plan, he might consider outpatient surgery (at a cost of $300) or having the surgery done in the doctor's office. The employe will have choices to make. Will he spend $160 (his share of the $800 hospital bill) for two days in the hospital, $60 (20 percent of the $300 charge) for outpatient surgery or nothing if it is done in the doctor's office? ALCOA employes don't make those kinds of decisions today, the company notes, because they have first-dollar coverage.

The Coming Crunch In Housing Finance

Federal budget deficits and home buyers' needs are on a collision course.

By Mary-Margaret Wantuck



PHOTO: DAVID WALKER

The affordable house of the future may be a smaller house on a smaller lot.

IF THE LOOMING federal deficits are not reduced, the United States will face a capital shortage that will "shake the American economic order in long-lasting and destructive ways." So warns the U.S. League of Savings Institutions, in words that are echoed by many home builders, mortgage lenders and potential home buyers.

Donald F. Wall, chairman of a U.S. League homeownership task force, says that the "housing finance gap" is already $50 billion a year. Housing's share of capital available for investment declined from 23.3 percent in the 1970s to 19.1 percent during the first three years of the 1980s, the task force says, while the federal government's soared from 15.1 percent to 26 percent.

Wall paints this sobering picture: If federal deficits are not reduced, the capital pool will have to quadruple by the end of the 1980s just to bring the federal government's share back to its 1970s level.

He is not hopeful that revenues being invested in mortgages by life insurance companies or pension funds—pension fund assets have mushroomed to $1 trillion—will close the home financing gap significantly.

The U.S. League's solution to the capital supply problem: a combination of deficit reduction efforts and tax law changes to encourage saving rather than consumption.

Another answer, from the National Association of Realtors, is to tie all entitlement spending growth and tax indexing to the consumer price index, minus 3 percentage points.

And the National Association of Home Builders is lobbying for creation of a bipartisan panel that would, by February 15, recommend ways to curb the runaway deficits—in time for the recommendations to be considered during the fiscal 1985 budget process.

Economists at a home builders' economic forecast conference warned that the current housing-led economic recovery will last about one more year before it runs into serious difficulties caused by federal deficits.

Most housing experts agree that single- and multifamily housing starts will total around 1.8 million this year, a slight increase over last year. The Realtors predict sales of existing single-family homes of 2.95 million this year, up from 2.74 million in 1983.

Capital for these new mortgages is being generated increasingly in the secondary market: the resale of mortgages to investors through mortgage-backed securities. Such securities now account for about 20 percent of the $1.1 trillion in outstanding mortgage debt, according to data from the Federal Reserve Board and the Federal Home Loan Mortgage Corporation.

Most housing trade groups and Wall Street brokers anticipate that by the end of the decade between two thirds and three fourths of all home mortgages will be sold to investors through mortgage-backed securities.

The secondary mortgage market's importance would be further increased by the passage of proposed legislation to create trusts for investment in mortgages. The trusts, known as TIMs, would provide investors with more favorable tax treatment and enable mortgage sellers to establish several classes of securities with varying maturities from the same pool of mortgages. The TIMs concept is supported by housing organizations and such business groups as the U.S. Chamber of Commerce, which has advocated flexibility and long-term stability in the housing finance market.

Builders, real estate agents, home buyers and lenders will continue to grapple with the affordability problem this year. The Realtors note that in 1977, a typical existing home, then priced at around $42,900, could be bought by a family with an income 17 percent below the national median. Now a family needs an income 21 percent above the median to afford a typical existing home priced at $71,000.

Jack Carlson, chief economist and executive vice president of the Realtors, predicts that the median resale home price will increase 6.4 percent, to $74,300, in 1984 while the median price for new single-family homes rises about 8.5 percent, to $81,900.

WHAT ARE SOME solutions? For new homes, builders say that downsizing from the current average of 1,500 square feet to as low as 1,200 square feet and significantly increasing the density of housing developments are the least painful ways to ease the problem.

Charles E. Peck, chairman of the Ryland Group, a home-building firm, expects less-expensive, factory-built modular housing to be the "superstar growth area of the housing industry."

Adjustable rate mortgages, which also have found favor with home buyers because of the initial discount they provide, now account for half of new conventional mortgages.

"The 1980s will see . . . strong, well-capitalized public [building] companies dominating our industry. . . . The last bastion of the individualistic entrepreneur will be seriously eroded," says housing-finance expert Kenneth Leventhal.

Peter Herder, president of Herder Construction Company in Tucson, Ariz., and president-elect of the National Association of Home Builders, notes, "The builder of 1984 and beyond will be following market demands rather than going by gut feeling." □



Retirement benefits for federal workers, like these in Washington, are an ever-growing burden on the taxpayer.

U.S. Pension Time Bomb

The federal government owes its retirees $1 trillion—a debt that is growing steadily.

By Kathy Root

IT HAS BEEN piling up debt at the rate of $70,000 a minute. It costs more than the combined food stamp and welfare programs and pays benefits to fewer than 2 million people.

This Washington leviathan is the federal civil service retirement system, and it is costing you money—lots of money.

By mid-1983, the retirement system, encompassing 51 separate programs, had accumulated an unfunded liability—a debt—of $517 billion. That meant the system's present and future benefit obligations, minus its current assets, totaled more than a half trillion dollars. And that debt of nearly $6,500 for each of the nation's 81.4 million families is steadily growing.

At present, nearly 2 million federal retirees are drawing an average of $12,481 a year—and the figure is $6,000 higher for those who spent full careers in the civil service. Their pensions will increase automatically because of the cost-of-living adjustments that are part of all federal entitlement programs.

When the civil service system's debt is combined with the equally large but totally separate half-trillion-dollar debt accumulated by the military retirement system, the result is a doubling of the U.S. national debt.

Many who have looked at the burgeoning deficit and at the way the retirement systems are structured have pointed their fingers at the cost-of-living adjustments as the root of the problem.

"We have to do something about COLAs," says Donald J. Devine, director of the Office of Personnel Management, who oversees the civil service retirement system.

"Nobody in the private sector has what we in the government have—100 percent cost-of-living increases," Devine says. Most private retirement programs do not adjust for inflation. And U.S. Chamber of Commerce statistics show that those that do make adjustments generally cap those increases at 3 percent even if the increase in the consumer price index is larger.

Federal retirees have enjoyed 100 percent COLAs since the 1960s, when Congress decided to tie benefit increases to the CPI. Upward adjustments in benefits were made twice yearly until 1981, when Congress changed the law to put them on an annual basis. In another reform, it limited the adjustment to half of the CPI for retirees under age 62.

THOSE INCREASES, Devine says, "are the single biggest culprit" in the massive growth of the federal pension system. "Doing something about that alone," the OPM director adds, "would do a lot to help the system." OPM figures show that giving federal retirees COLAs comparable to private sector rates would save $8 billion over five years.

Rep. John Erlenborn (R-Ill.), ranking minority member of the House Education and Labor Committee and a longtime advocate of reforming the federal pension system, agrees with Devine. He has sponsored a comprehensive package of civil service retirement changes that would address the COLA issue and other problems in the system.

"When we were considering here in the Congress what should be done to save the Social Security system, I found that most Social Security recipients didn't object to the idea of a limitation on their COLA increases," Erlenborn says. "But the Social Security retirees said they wanted a similar COLA limit for civil service retirees if that was what Social Security would be getting." Only a six-month COLA delay was included in the $165 billion Social Security bail-out legislation.

"Getting control of the COLAs is crucial to the problem," Erlenborn adds, explaining that his package would tie cost-of-living adjustments to the lower of the increase in the CPI or the increase in the average annual wage. The Illinois Republican's proposal would change COLAs across the board so that all federal entitlement programs—including Social Security—would be affected.

As for the trillion-dollar-plus unfunded liability of the military and civil service retirement systems, Erlenborn considers that problem "a ticking time bomb . . . a danger for the future."

He adds: "Think of how much more money we could spend on the social needs in this country without that debt." Even under his proposal, were it enacted, getting the civil service system's debt down to a "manageable level" would take 20 years.

"Of course, you never get there unless you take the first step," Erlenborn says, "and we in Congress have been reluctant to do that."

The federal pension program requires government employes to contribute 7 percent of their annual salaries toward their retirement, and government agencies also kick in 7 percent of payroll from operating budgets. But those payments in 1982 covered only one fourth of the system's costs, and that year, taxpayers made up a whopping $24 billion difference in the $32 billion civil service program. That $24 billion came from general treasury revenues.

As of this year, newly hired federal

workers will contribute 6.7 percent of payroll to the Social Security System and 1.3 percent to the civil service pension program. The smaller contributions by the new employes will net them greatly reduced federal pension benefits but guarantee them full Social Security payments.

Congressional leaders, responding to federal workers' fears that the civil service retirement system will be dismantled, have promised to introduce legislation this year that will address that problem.

The military retirement system does not require soldiers and sailors to contribute any pay toward their retirement. All of the $16.2 billion spent on that system in 1982 was appropriated by Congress as part of the Pentagon's general operating budget.

In the federal government, a worker with 30 years' service can retire at age 55 (the minimum retirement age) and receive 56 percent of his or her highest three-year salary average as a basic pension benefit. Office of Personnel Management figures show that a 55-year-old federal worker who retired in 1974 with a $20,000 salary could look forward to collecting $600,191 in COLA-increased benefits by the time he reached age 75.

SUCH GENEROUS early retirement options have added to the civil service retirement program's money woes, says OPM chief Devine. Unlike private-sector pension programs, the federal system does not impose benefit penalties for early retirement. Those who retire early collect benefit checks far longer than those who work to age 65 or 70, and nearly half of all civil service employes retire before age 60.

By comparison, the Social Security system penalizes private-sector workers who take early retirement, at age 62, by withholding 20 percent of their benefits; even so, nearly 80 percent of those who qualify for Social Security payments choose to retire early. But the average annual benefit under that system, which covers 28 million retirees, is only about $5,000. Workers are now paying 6.7 percent in Social Security taxes on a maximum taxable wage base of $37,800, and the rate is to rise to 7 percent next year. The wage base rises automatically each year as overall average wages increase nationwide.

The military retirement system is even more generous than the civil service system, Erlenborn says. Military retirees can draw full retirement benefits after 20 years' service, and benefit payments begin as soon as a retiree leaves the military. Under that system, the government is paying benefits to thousands of retired military personnel aged 40 to 60 who are working in other jobs to qualify for private pensions and Social Security.

"We must rethink 20 [years of military service] and out," Erlenborn says, referring to military retirement. "They have a right to a fully vested pension, but perhaps we should not pay it until they reach retirement age. It's not right to begin paying someone [retirement benefits] at age 40 and continue paying them for a full life expectancy of 70 or 80 years. It's a system I just don't think we can afford."

He notes that he is "preaching heresy" and that adopting his ideas would "cause revolt" in the armed services, "but it's something we ought to do."



PHOTO: GARY KEFFER



PHOTO: JOHN NEUBAKER

Federal official Donald Devine (top) is a crusader for cutting the cost of federal pensions. Union leader Kenneth Blaylock opposes Devine's proposals.

Heresy is just what the government unions thought they heard last year when OPM proposed to Congress trimming some aspects of the civil service retirement system.

Kenneth T. Blaylock, president of the American Federation of Government Employees, largest of the government unions, told the Senate Finance Committee that "a commonly held misconception is that civil service retirement is an extremely expensive boondoggle that guarantees that a federal retiree will be wealthy in his or her older age. Nothing could be farther from the truth."

Blaylock said that civil service retirement benefits had once been "a very attractive feature of federal employment" but that budget constraints since 1981 had made it less so.

He pointed out that federal retirees, unlike Social Security recipients, are required to pay taxes on their pensions. (Income taxes must be paid on civil service pensions after each retiree has withdrawn, tax-free, an amount equal to the contributions the retiree has paid into the program. The date when tax-free benefits end and taxable benefits begin is determined by the government.)

Under the new Social Security law that takes effect this month, beneficiaries who receive more than $25,000 income from all sources also will have to pay income taxes on half of their Social Security benefits.

Despite Blaylock's protestations, Congress adopted some Devine-proposed changes in the 1984 budget resolution. Those changes include raising the percentage of salary contributions and raising the age at which a worker may retire with full benefits. The age for full benefits will rise from 55 to 65, and the contribution amount will gradually rise from the present 7 percent to 11 percent.

Those reforms will save the government $20 billion by 1988, Devine says. But he is not optimistic about the prospects for other proposals he has made, including changing the way COLAs are figured, changing several aspects of the system's early retirement features and refiguring the benefits formula.

"We've been talking to Congress about the problems for about a year or so, but they don't seem to be interested," Devine says. "This year, I'm not optimistic about getting anything big, but perhaps in 1985 we'll have a real chance for reform of the system, especially for new government employes." □



How ZIP Plus Four Can Deliver for You

The nine-digit code has something to offer large numbers of businesses.

By Susanni Douville Wendell

THE POSTAL SERVICE did not take "Mr. ZIP" out of mothballs to launch its new nine-digit ZIP code, ZIP Plus Four. The scrawny cartoon character exhorted the public to use the five-digit code when it was introduced in 1963, but the public is not being urged to use ZIP Plus Four. Instead, the Postal Service is quietly offering a deal to business mailers: If you use the code, we'll save you a lot of money.

That is a proposition that businesses, and even some former critics of ZIP Plus Four, seem to be buying. "This is a very attractive program for the 4,000 to 6,000 major mailers in the country," says James Pehta, vice president of List Processing Company, a Lombard, Ill., firm that specializes in selling computer software to large-scale mailers.

Since October 9, mailers have been able to receive two levels of discounts for using ZIP Plus Four on first-class mail. The first is a half cent per piece for presorted mail sent in batches of 500 or more; that brings the cost per letter down from the normal presort discount rate, 17 cents, to 16½ cents. The second discount, designed for smaller mailers, is nine tenths of a cent for nonpresorted mail sent in batches of 250 or more.

"The regulations are extremely democratic," says Robert J. Pascal, group vice president of the U.S. Business Systems Division of Pitney Bowes, Inc., which manufactures automated machinery for the Postal Service. "The smaller mailer is not forgotten—he or she can still get a postal discount without having a large volume" of mail.

For business, which generates more than 80 percent of all U.S. mail, approval of the discounts by the Postal Rate Commission was a green light. The Postal Service has no estimates yet of how many mailers have been taking advantage of the discounts. But companies like List Processing, which sell software to help firms convert their address files, report a jump in inquiries about the new ZIP code and a slow but steady increase in the number of orders being placed.

"You'll hear no negative comments from us at this point," says an aide to Rep. Glenn English (D-Okla.), who was a leading congressional critic of the Postal Service's initial handling of ZIP Plus Four. "Mailers are going to love it. Once they convert their files, they will continue to get the discount to perpetuity."

The going has not always been this easy. ZIP Plus Four survived a critical report by the General Accounting Office, Congress' watchdog agency, and a congressionally imposed two-year delay before the Postal Service could begin the program on October 1.

CRITICS LIKE ENGLISH believe the delay "put the program back on a sensible track." Lawmakers wanted the Postal Service to gear the program to business mailers, not the general public, and to test adequately the automated equipment designed to process ZIP Plus Four mail.

Postmaster General William F. Bolger says he "appreciates the reasons people were skeptical," and he admits that "the delay helped us by giving us more time to evaluate the automated equipment." But, he adds, "If I had my druthers, I would rather not have had the delay. We had seen similar equipment work on Japanese and European mail, so we weren't buying a pig in a poke."

The Postal Service began studying ZIP Plus Four and automated equipment in 1976, and some business mailers, like Tandy Corporation, owner of Radio Shack, began converting their address files that year.

ZIP Plus Four and automation were conceived to let the agency "handle more mail by handling it less," as an agency slogan puts it. The Postal Service, which spends 83 percent of its budget on labor, hoped to shrink its work force gradually through attrition, speed up processing of mail—and possibly delivery—and reduce sorting errors. The total saving in labor costs alone through automation is estimated at $600 million annually.

Under ZIP Plus Four, a letter sent to a post office is scanned by an optical character reader



Postmaster General William F. Bolger says ZIP Plus Four and automated machines that code and sort mail are "the only reasonable means to substantially reduce postal costs."

that checks the ZIP code against the address and sprays a bar code, corresponding to the ZIP code, on the envelope. When the letter is received by the destination post office, it is scanned by a bar code sorter that automatically sorts the mail for delivery.

The machines are being used for five-digit mail as well as ZIP Plus Four. But the nine digits are more economical for the Postal Service because they enable the bar code sorter to sort mail down to a post office box, a side of a street or even a large building. The automated equipment can process 8,000 to 10,000 letters per work hour, compared with 1,850 by a letter sorting machine and 800 by hand.

DURING THE TWO-YEAR delay imposed by Congress, the Postal Service was allowed to continue purchasing and installing equipment and informing mailers about the program.

The first automated machines were installed in Los Angeles in September, 1982. The Postal Service has automated about 70 post offices so far and expects to automate 118 by the end of 1984.

Bolger has promoted the program to such business groups as the Greater Hartford Postal Customers Council. Addressing that group last year, he asked that it "consider that on the benefit side, the ZIP Plus Four program and the Postal Service's efforts to automate are the only reasonable means to substantially reduce postal costs."

Other business people do not need to be convinced of ZIP Plus Four's value. Tandy Corporation—the first major mailer to begin using ZIP Plus Four, according to Robert Daniels, the firm's data processing manager of advertising—switched for a reason having nothing to do with discounts (Tandy's third-class advertising mail does not qualify for them). The company is saving about $1 million annually because ZIP Plus Four helped it weed out bad addresses on its advertising flyer list.

For example, if a five-digit address is wrong, and mail sent to it is likely undeliverable, no corresponding ZIP Plus Four code will match it, and the bad address will be thrown out of Tandy's files. Having more accurate addresses is cutting the number of advertising flyers "ending up in the trash can at the post office" by 20 to 30 percent, Daniels estimates.

As for businesses interested in discounts, Bolger says they should have no trouble addressing their mail to qualify. Rules and guidelines are detailed in two publications with intimidating titles: Postal Service Notice 221, "Addressing for Automation," and Publication 25, "Guide to Business Mail Preparation."

Bolger, insisting that it is relatively simple to "sanitize" one's mail, notes that 47 billion pieces of business mail already meet the requirements annually. "It's very easy to get the discount," he says. "We're going to make it easier on the customer, not the Postal Service. We can work with anybody so they can have a painless way of sanitizing their addresses."

RULES FOR LETTERS include putting the address—and nothing but the address—within a certain "read area" on the envelope and using envelopes that are between 5 inches and 11½ inches long, and 3½ inches and 6⅛ inches high, and no more than one fourth of an inch thick. The Postal Service also recommends, but does not require, using standard two-digit abbreviations, block type and a flush-left margin. There are also rules for reply envelopes.

Such regulations have not discouraged small businessman Joel Whitaker of Westfield, N.J., publisher of the *Kane Report* and *Packaging Letter*, newsletters that serve the alcoholic beverage and packaging industries. "ZIP Plus Four is the way to go," he says. "It will improve the Postal Service's efficiency."

Whitaker does find fault, however, with a rule barring mailers from receiving a discount if they commingle ZIP Plus Four with regular five-digit mail. "To have a mailing house sort the mail out for me would cost as much as the discount," he says. He suggests that the Postal Service should ascertain what percentage of a firm's mail bears ZIP Plus Four and then prorate the discount accordingly.

Gary Siegel, vice president of Comnet, a Washington company selling computer programs to convert address files, says the rule against commingling is particularly onerous because "you can never get 100 percent of your addresses converted to ZIP Plus Four no matter which method you use."

For example, an address listed in your file as "John Doe Co., Main Street," could not be matched with a ZIP Plus Four file listing it as "John Doe Co., 65 Main Street." The computer, unlike a postal carrier, cannot reason that the addresses belong to the same firm. Converting 85 to 95 percent of your address file is considered a good rate.

Bolger, one of only two postmasters general to be a career Postal Service employe, has said he is "aware of the problem" of not being able to get the discount if the two kinds of ZIP codes are commingled and is "looking into it."

He is also looking into expanding the discount for ZIP Plus Four to other classes of mail, including second class, third class and even parcel post.

Will there be a ZIP Plus Six? "Nope. This is it," the postmaster general replies. "I think ZIP Plus Four will last at least until this country has a 400 million population. And that's a long way away." □

Tips for Converting Your ZIPs

Need to convert your address files to ZIP Plus Four, but don't know where to begin? You can either:

- Convert them yourself, using the Postal Service's magnetic computer tapes, which are lent free of charge for up to 60 days. The agency's customer service representatives will help you. The tapes can be used only on mainframe computers. Estimated cost: 1½ to 2 cents per name.
- Let a computer software company or service bureau convert your files for you, or license their program for matching the new files against the old.

Tandy Corporation, owner of Radio Shack, converted its files using the Postal Service's magnetic tapes. Twenty-one million ZIP codes are stored on 70 reels of 1600 BPI magnetic tape and 24 reels of 6250 BPI tape. The Postal Service does not provide a computer program to match old and new addresses; Tandy developed its own.

Joel Whitaker, a newsletter publisher in Westfield, N.J., also converted his files himself, but in a very different way. He sent the Postal Service a printout of his 1,000 or so addresses, which the agency returned coded with ZIP Plus Four for about 80 percent of the names.

Though the service was free, Whitaker had to bear the cost of manually transferring the new ZIPs into his own computer files. For a large mailer that cost would obviously be very great; computer conversion is the only practical alternative.

The 75 or 80 firms nationwide that sell ZIP Plus Four programs say converting on your own can be more expensive—and painful—than having them do it. They charge a fee of about $20,000 for the initial conversion and about $3,000 in annual maintenance fees thereafter. They provide the Postal Service's data, condensed to a manageable three or four tapes, and the address-matching software. And they supervise the transition for you.

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Sharing Work And Rewards

Frank Mason has built his firm with "good help from good people." He shows his gratitude tangibly.

By Del Marth

THAT MAGICAL AGE of 21 came around for Frank L. Mason in 1945. He had just completed Navy flight training and was looking forward to shipping overseas for a crack at the Japanese. But World War II ended.

Returning home to Birmingham, he re-enrolled at the University of Alabama, where he had completed three semesters before enlisting in the Navy. Two years later, his father's health began to fail. Mason left college to take care of the family business, a small tool and die shop.

That conflicted with Mason's career plan at the time. He had intended to earn a degree in mechanical engineering, take a job with a large corporation in Atlanta and enjoy a lifetime of security.

Instead, at age 23, he had no college degree and was going to work each morning to a 2,000-square-foot shop in a rented basement. He and four other employes made tools and dies. The five of them, plus a bookkeeper and Mason's father, were the Southeastern Tool and Die Company.

Today, at 59, Frank Mason sits in a spacious office surrounded by 182,000 square feet of factory. Out front, on the manicured lawn, a handsome sign announces the site as headquarters of Mason Corporation.

Inside, wall charts in the accounting office report that the corporation, which offers more than 2,600 items to the home improvement and light commercial markets, had $17 million in sales last year. It sells a wide range of aluminum products, including window screens, screen doors, storm windows, carports, canopies, patio covers, replacement windows, commercial store facing and the original line—tools and dies.

Mason has no regrets about his career. "Looking back, I can see it was a fallacy to think I would have job security in a large corporation," he says. "I think about what has happened to those workers at U.S. Steel and with the big auto corporations. Today, I would say, the better job security is in a small business."

Mason's entrepreneurial expertise prompted the U.S. Chamber of Commerce to put him on its board of directors and its Small Business Council. A strong advocate of sharing profits with employes, Mason has been elected chairman of the Profit Sharing Council of America, an organization of companies that have profit sharing plans. In 1980 Mason was singled out by the Women's Committee of 100 in Birmingham as the Citizen of the Year, and in 1982 he was chosen by the state of Alabama as Small Business Person of the Year.

"What I have done, anybody can do," Mason says.

Typical Mason modesty, according to his banker, Roy Gilbert, president of SouthTrust Bank of Alabama in Birmingham. "No, Frank is special," Gilbert says. "He is well-read, well-positioned at all times. He anticipates what will happen in the marketplace. He has a fine sense of business timing."

That fine timing helped get the tool and die shop out of the basement.

In 1948, when it was clear to Mason that he would not return to college, he and his father—who was working as much as his health permitted—incorporated the business. Young Mason signed on as secretary-treasurer. The new corporation's first move: a shift away from contract tool and die work to manufacturing aluminum window screen frames.

In those days, most window screen frames were made of wood. The idea of using aluminum had been talked about before and during World War II, but it had not really been tried, because aluminum was scarce during the war. In

The company that bears Frank L. Mason's name makes and distributes products for the home improvement and light commercial markets. It has locations in four states.



1948 the Masons entered the infant market—and immediately ran into problems.

They had expected that home supply dealers would set up their own screen fabricating shops; the Masons planned to provide only the aluminum frames, in different lengths, like lumber.

"We had to convince the dealer there was a market for him if he bought our materials," Mason says. "And, of course, the dealer got the same response from the public that we did, which was, 'My goodness, everybody knows screens are made of wood—and you can't paint aluminum.' It was an uphill battle."

PHOTOS: DAVID VALDEZ



A near-fatal mistake, Mason says, was granting exclusive territories to distributors: "We entered several such agreements and found that instead of the dealer's promoting and selling the product, he would put it in his inventory and wait for someone to come along and ask for it."

Mason adds: "That taught me something I would tell anyone with money invested in his own business: Keep all your options open on sales. Don't let somebody cut you off.

"You can also get cut off by letting one customer become so large a part of your total sales that the customer begins to dictate, and you lose control."

DESPITE EARLY MISTAKES, Southeastern Tool and Die Company counted $172,000 in sales in 1948-49. Five years after that, its employes numbering 25, it launched what Mason calls the key to the firm's long-term success—a profit sharing plan. It was, and is, by all standards generous.

The company puts up to 50 percent of its profits into the plan. To date the fund has paid out more than $1 million in benefits; it is valued at $7 million.

"No doubt, profit sharing has a beneficial effect," says Mason. "It affects the relationship of the employe to the company and the company to the employe. It emphasizes we are all working together to accomplish a mutually beneficial objective."

But at the beginning, Mason's objective for the company was not clear: "Really, at the time I started at Southeastern I had no idea it would get to be the size it is. It's sort of like traveling down a highway—you get to one point, so you see how much farther you can go. And then you are better able to see opportunities that you couldn't see at the beginning."

A methodical planner, not a gambler, Mason steadily added aluminum products to the company's sales brochure. In 1959, a year in which the company's volume hit $1.8 million, his father retired, and Frank Mason took over the presidency.

Working 12-hour days, Mason adhered to a maxim he still believes in: Reward follows effort.

"Like a farmer, no one harvests anything until he has put forth the work," he says. "I think too many people want rewards first, before putting out the effort."

For the last 15 years, Mason has not spared the effort. In 1969, after changing his company's name to the Mason Corporation, he bought Southern Roofing & Metals Company in Raleigh, N.C., a company that manufactured awning sheets and distributed other home products.

During the 1970s the corporation expanded into Texas, with an office, manufacturing and distribution facility in Carrollton. It opened another distribution center in 1975 in Kansas City, Mo. Mason Corporation now occupies more than 356,000 square feet in four locations in four states.

Each of the operations outside Birmingham is a wholly owned subsidiary of Mason Corporation. The corporation's stock is owned by Mason and his wife, Bess.

No Mason operation is unionized. "I've tried to make it clear that if somebody wants to work for a union, that's fine, but he should go where there is a union," Mason says. "We don't feel the need for one.

"Any employe who wants to talk to me can do so. I try to make it clear that if an employe feels he is being mistreated by the company, or by someone in the company who thinks he is carrying out company policy, well, I want to know about it."

IT IS DOUBTFUL he gets many such complaints, for Mason credits his employes with much of the corporation's success.

"Good help from good people with good values has helped to build our company," he says. And he proves it regularly, delegating authority more and more as he thinks about retirement.

His fishing and hunting buddy, L.D. Howard, owner of Bessemer Aluminum in Birmingham, doubts Mason will ever give up business totally. "I kid him now about spending too much time on his company and not enough on fishing and hunting," Howard says. "But when we're in the outdoors, Frank won't talk about business."

Whatever Mason decides about the future will come after thorough study, Howard says. "He doesn't make serious mistakes or bad judgments. I've seen him have some setbacks, but he didn't cry about them—he was inclined to laugh them off and keep plugging away."

Mason admits he would like to do more hunting and fishing: "I'm not a workaholic. My wife and I have a farm up near Lookout Mountain in northeast

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Alabama. We get up there about 10 times a year."

A few years from now, when the deer and trout finally become irresistible, Mason will have another generation ready at the plant. His son, David, 31, and his daughter Ann's husband, Russ Chambliss, both work for the corporation.

But for now, Mason takes a briefcase home from the office each evening. It is full of "background reading," as he calls it, often political in nature. Mason, an ardent supporter of Ronald Reagan, believes small business people should be more involved in politics.

"I think that small business has some real assets to bring to the political process," he says. "A person who has had to mortgage his house to meet a Friday payroll looks at spending differently than if he has never had that experience. So I think there is validity to the small business perspective in managing government.

"The big problem in this country today is that too many people in Congress have not had to be fiscally responsible in their votes. And I think that is what has gotten the federal budget out of balance, brought on high tax rates and created the economic climate that small business has to operate in."

IN 1956 Mason ran for justice of the peace—not because he coveted the position but because, as a Republican, he believed voters in heavily Democratic Alabama should have a choice. They agreed; he won.

"The job took nearly no time at all," says Mason, who had his hands full with his business. "It was only a two-year term and what little JP work needed doing was done by another JP in the district."

But the victory spurred him into running for Birmingham's congressional seat as a Republican in 1958. "I think I was the first Republican to run in this district in this century," he says.

He lost that battle, but he is convinced he won the war. Other Republicans followed his lead in seeking the congressional seat in succeeding years, "and finally one did win."

Mason's third foray into politics came in 1976, when he was elected a delegate to the Republican national convention.

For the moment, Mason has taken his hat out of the ring, explaining, "I don't really have any ambition to serve as a congressman or senator."

But he hasn't let up on efforts to persuade small business persons to seek political office.

"Reward," he tells them, offering himself as a testimonial, "does follow effort." □

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Computers as Mailboxes

After a decade of slow growth, electronic mail is taking off. It holds the promise of much more rapid business communications.

By Bob Gatty

THE OTHER DAY J. Robert Harcharik was listening as MCI Communications Corporation employes fielded calls from potential customers of MCI Mail, the electronic postal system launched by the company in late September.

One call came from a 12-year-old boy. He was signed up.

Harcharik, president of MCI's Digital Information Services Corporation, runs MCI Mail. That boy, he contends, is the wave of the future.

"We have a generation growing up with computers," he says. "Some people in their 20s today probably have used personal computers for eight or 10 years. They're not far away from management positions in business. It's a generation that expects to turn around in the chair and see a computer sitting there."

In fact, says MCI's public relations manager, William A. Stern, many children routinely use home computers by age 12, "and they have friends outside their immediate neighborhoods—friends from camp or across town—with whom they want to communicate electronically."

Stern says youngsters can be billed for their use of MCI Mail just as anyone else is. Most kids would use a comparatively inexpensive MCI service, the "instant letter"—a computer-to-computer format that costs $1 for a typical three-to-five page document—so they can afford it, he notes.

MCI's entry into the electronic mail field, along with other developments still to come, is expected to have a major impact on an industry "that has gone from no place to no place" over the past decade, according to Kenneth G. Bosomworth, a telecommunications and computer expert at International Resource Development, Inc., in Norwalk, Conn.

"The market has moved very slowly from about $10 million in the early '70s to no more than $40 million today," says Bosomworth, referring to annual revenue generated by private companies for sending computer messages.

But MCI's entry, plus the anticipated entry of Federal Express into electronic telecommunications, "will probably change the market beyond recognition," Bosomworth says.

PHOTO: KRISTIN CALLAHAN



E-COM, the Postal Service's venture into electronic mail, has gotten off to a slow start amid heavy criticism from Congress. But the entry of MCI, Federal Express and other private firms signals major growth in the industry.

PHOTO: DAVID VALDEZ

MCI's new offerings go far beyond enabling messages to be sent from one computer to another, a service already provided by many firms with varying degrees of success. MCI Mail blends conventional electronic mail and overnight package express service, thus tapping into an overall market the firm estimates at $8 billion per year.

"Ours is an instant information economy," says MCI Chairman William G. McGowan, "and this is the postal system designed for it."

Customers can send letters and other documents computer-to-computer even if their equipment is not compatible, since MCI translates the message for the receiving computer. Thus, a letter sent on a Xerox or Digital word processor can be received by a Wang word processor, and vice versa.

However, it is not necessary for the recipient to have a computer. For $25, a message can be sent via computer to one of 15 MCI post offices, printed and placed in a bright orange envelope and delivered within four hours by Purolator, Inc., the courier service.

The sender can also select overnight delivery by Purolator for $6 or have the

message placed in the first-class mail stream for $2.

Harcharik reports that the service is on schedule toward signing up 200,000 users by the end of 1984.

One large insurance brokerage firm with numerous branch offices in the United States and abroad has turned to MCI Mail to help speed up interoffice correspondence. Eric Meyer, assistant vice president for risk management services at Johnson & Higgins of Washington, D.C., Inc., says the insurance brokerage experimented with internal electronic communications but turned to MCI Mail because of economy and convenience.

Moreover, Meyer says there is a side benefit he had not counted on: His clients are impressed. "Our professional image has improved," he contends, because the use of electronic mail projects an image of an up-and-coming, technologically savvy organization.

The firm is using MCI's instant letter for communicating with clients "as we find clients with access numbers," Meyer adds.

MCI's move into the electronic mail/overnight delivery market comes as the U.S. Postal Service is trying to boost use of its electronic mail service, E-COM, launched Jan. 4, 1982.

DESIGNED TO SERVE volume mailers, E-COM is much less expensive than MCI Mail but requires sending a letter to a minimum of 200 recipients and guarantees only two-day delivery.

Those restrictions are blamed for E-COM's slow start. When E-COM was first announced, Postmaster General William F. Bolger predicted that 50 million E-COM letters would be sent the first year. However, when the dust settled, the actual number was 15.3 million—compared with total mail volume of 115 billion pieces.

E-COM has been criticized in Congress for costing far more per message than is charged for the service. A House Government Operations Committee report points out that the Postal Service lost $1.25 per message in fiscal 1983, double its original projection.

Criticizing the Postal Service for being unable to project its E-COM volume accurately, the report says the committee "finds it difficult to accept the Postal Service contention that E-COM volume in fiscal 1984 will be triple the 1983 volume."

The committee also contends that proposed rate increases for E-COM are insufficient. (The Postal Service has asked the Postal Rate Commission for an increase from 26 cents for a one-page message and 31 cents for two pages to 31 cents and 40 cents, respectively.)

"The future role of the U.S. Postal Service in the electronic mail market should be re-examined," the report recommends. "Since E-COM is not vital to the long-term viability of the Postal Service, the [Board of] Governors should give serious consideration to withdrawing the service."

But E-COM has its supporters.

Robert Pfluger, a technology adviser for Shell Oil Company, says Shell uses the service for rapid communications with stockholders and customers, and it has found that 70 to 80 percent of E-COM mail is delivered the next day. However, he adds, the 200-recipient minimum often causes problems for Shell.

"If they would just leave it alone and quit all this continuous harassment and promote it as it was first offered, E-COM would be very successful," contends Gene Truelove, president of Software Development and Maintenance, Inc., of Fuquay-Varina, N.C.

Truelove's company is one of several that contract with the Postal Service to provide the link that many mailers need to take advantage of E-COM. The mailer turns over mailing lists and letters to Truelove's firm, which then puts them together and transmits the completed documents to the E-COM distribution centers.

This third party arrangement, however, is a problem for some firms. For example, Robert De La Cruz, a vice president of Merrill Lynch & Company, says one reason his firm seldom uses E-COM is that it does not want to turn over confidential data to another firm for processing. Moreover, he adds, with E-COM, "The printing does not allow for use of a corporate logo, and we like to have a separate identity, so customers know it's coming from Merrill Lynch." De La Cruz says Merrill Lynch is "looking" at MCI Mail because "it may have some applications for us."

Postmaster General Bolger discounts MCI Mail's impact as a competitor of the Postal Service. In fact, he says, it will add to Postal Service volume, since MCI bills its customers by mail and since "a significant number of messages" that had been handled by overnight courier services now end their trips as first-class mail.

The Postal Service, Bolger adds, is working on resolving some of the limitations—such as the 200-recipient minimum—and is beginning to promote E-COM more aggressively.

HOWEVER, Bolger says the Postal Service should not go further and get into the computer-to-computer electronic mail business. "I'm not an ostrich; I don't have my head in the sand," he says. "Sure, there's going to be more terminal-to-terminal communications. I think it's going to be a lot more accepted than it is today."

But, he adds, "Human beings are still going to want hard copy"—so the letter as we know it today is not going to disappear.

Truelove agrees. "Not everybody has a terminal," he points out. "Terminal-to-terminal communications allow you to communicate only with people who have similar equipment. The Postal Service can provide the delivery service to overcome this."

Robert Harcharik: MCI Mail is targeting managers in "a generation growing up with computers."



PHOTO: DAVID VALDEZ

Meanwhile, Source Telecomputing, of McLean, Va., which operates the Source, a data base service for personal computer users, is putting finishing touches on a deal with the Postal Service that will allow subscribers to send letters and documents via E-COM to anyone in the United States.

Currently, subscribers to the Source and to similar services can send electronic mail to other subscribers, using the telecommunications firm as the intermediary to allow different makes of computers to converse.

But by combining the Source and E-COM, the 200-recipient minimum re-

quirement of the Postal Service can be avoided and messages can be sent to anyone—not just another subscriber to the Source.

THE National Grocers Association, in Reston, Va., has developed a new service for its members using the Source as the intermediary. According to George Melnykovich, NGA vice president for research and education, members will be able to communicate with each other and the association via computer.

Problem solving will be expedited, he says, with members conversing with each other about mutual noncompetitive concerns. In addition, NGA will be able to alert members instantly about developments in Washington.

NGA members also will have access to the data base offered by the Source, which includes United Press International's national news wire and a business news service.

Numerous other firms, such as Tymnet, GTE Telenet Communications and General Electric Information Services Company, also include computer-to-computer data communications among services to their customers.

GE Information Services, for example, provides electronic mail linkups for hundreds of large U.S. companies via its QUIK-COMM system. With computer centers in Rockville, Md., Cleveland, and the Netherlands, the firm allows subscribers to transmit messages and documents from one computer to another worldwide. Most firms use QUIK-COMM for internal communications between branch offices, although subscriber firms can also communicate with one another.

ITT Dialcom, Inc., of Silver Spring, Md., provides an electronic mail system that links the White House office of cabinet affairs with 22 executive branch agencies and other White House offices. Spokesman Paul Warren says Dialcom is also about to announce an arrangement under which customers can send a telex message from any location in the world and, via Dialcom, have the message end up in the recipient's computer.

Dialcom clients can obtain information, through their computers, from United Press International, the *Los Angeles Times-Washington Post* News Service, an airline industry guide to flight schedules and a U.S. Department of Agriculture news service.

MEANWHILE, Federal Express is establishing a service to transmit documents electronically by facsimile machines. To begin next July, it will use high speed, high resolution facsimile machines to transmit an exact copy of a document or artwork from a customer to the destination within two hours.

Initially, Federal Express will install the facsimile machines in its offices around the country. The customer will call the delivery service for a pickup; the document will be transmitted by facsimile machine to a Federal Express location near the recipient and then be delivered by courier. The company also plans to offer to install the equipment in its customers' offices.

"The advantage of the Federal Express system is that the initiator [of the message] does not have to worry about the mechanics of how it gets there. They are providing end-to-end service," says International Resource Development's Bosomworth. "He does not need to know whether the guy has equipment. That has been a traditional problem with electronic mail."

One of the communications giants still to be heard from in the electronic mail arena is AT&T, but industry observers predict it soon will be involved. Says Michael F. Cavanagh, president of the Electronic Mail Association: "AT&T can be expected to market a very attractive electronic mail product."

Steve Geller, division manager of strategic planning for AT&T Information Systems, of Morristown, N.J., will say only that AT&T "understands the importance of being able to quickly exchange information in text form. We've spent a lot of time studying customer requirements in the office and will deliver offerings to meet those needs."

All of these developments mean that business people who adapt to the new technology will see significant changes in their way of doing business.

"There is an enormous opportunity for time savings," says Cavanagh. "All you need is a desk-top computer that communicates and a modem" to hook it to a telephone. "It couldn't be easier." □

A Small Firm's Electronic Wings



PHOTO: DAVID VALDEZ

Phyllis Brotman's 20-person advertising agency uses MCI Mail to keep in touch with clients across the country.

Electronic mail is a good way for small businesses to improve productivity, reduce costs and impress clients, according to the president of a small advertising and public relations agency in Baltimore.

Phyllis Brotman, who runs Image Dynamics, Inc., says the 20-person company uses MCI Mail's instant letter service to send press releases and advertising copy to clients across the United States.

The firm, which has accounts in Chicago, Los Angeles, San Francisco and the eastern United States, has found that the service is helping it to expand its horizons even more.

"We're already a national firm," says Brotman. "But this broadens the extent of the clients we can serve by allowing us to reach other regions of the country more easily and more economically."

Image Dynamics uses personal computers in its daily operations routinely—for writing copy, managing its mailing lists, accounting, keeping track of jobs and purchasing media advertising. Now those computers also allow the company to communicate instantly with clients.

"Copy we send can literally be edited while we are on the phone with them," says Brotman. "It costs a lot less than an airline ticket when we have copy that needs to be approved. And my clients just can't get over the fact that an agency of our size has the kind of communications capability that allows us to do this."

Brotman's clients need only to have a computer that can receive her messages via MCI. They do not need to be MCI Mail customers themselves. However, she says, "I'm sure that because we're using it, they're considering it, too."



PHOTO: GARY KEEFER

Detective Gregory Kurasz found holes for bolts too shallow at the top and bottom of this door. Result: It could be forced open.

How Secure Is Your Firm?

Security systems can be costly. Here are tips on choosing one—and on other steps to deter criminals.

By Bill Kroger

WARNING! This building is protected by high voltage and a man with a double-barreled shotgun three nights a week. You guess the nights."

That warning is part of a security system for a warehouse in Hampton, Va. The message is humorous, but the intent is serious. Security is no laughing matter.

Each year, more than $2 billion worth of goods is taken unlawfully from American businesses, and the long-term trend line is rising. The Federal Bureau of Investigation reports that violent crime, which includes robberies, has risen 47 percent in the last 10 years. Property crime has increased 48 percent.

This growth in crime has spawned a boom in the security industry field, and with that have come so many different kinds of security equipment that business people seeking to protect their property are often confused. Small businesses—especially vulnerable to crime—often find it difficult to increase security because of the cost.

What should you do to increase security? Where can you get answers?

One of the first places to turn for help is the local police department. Often it will have a detective section that specializes in security matters.

Police in Arlington County, Va., a suburb of Washington, have such a detective section—an active one. Police Detective Gregory J. Kurasz says about $500,000 in business-related property is reported stolen in Arlington every year. (Many thefts are not reported, he says, because they are small or because they go undetected for so long that businesses feel little can be done about them.)

KURASZ SAYS there are a number of things businesses, especially small businesses, can do to increase protection. For example:

• Retailers should locate cash registers where they are visible from the outside and keep them open—and empty—at night so police can see them. Further, interior lighting should be installed so police can see inside easily. Outside lights can create glare on windows and impair visibility.

• Firms located in high-rise buildings often have private security officers making rounds; when this is not the case, business people might ask to have their establishments included on police patrols.

• Businesses should post notices that they are secure and that little cash is kept on the premises. "If potential robbers see that you are alert and secure," Kurasz says, "they'll stay away."

• Retailers should educate clerks about security. For example, if a clerk encounters a shopper who says, "I'm just browsing," the clerk can respond: "If you see something you like, just nod. I'll see you." Kurasz says this alerts potential shoplifters that they will be watched.

• The operator of a one- or two-person business can tune a radio in a back room to a talk show, thus giving the impression in the front of the store that other persons are there working.

• If a customer enters a business when only one clerk is on duty, and the clerk is suspicious, he should call to a back room: "Keep making those calls, Joe. I've got a customer." This tells the customer that someone is in the back room, whether there is or not, and that this person is on a telephone and could easily call the police.

OTHER SMALL changes that could make a big difference in security: Adjusting merchandise shelves to improve employes' view could prove a good deterrent to potential shoplifters. A manager whose office walls are thin and thus easily breached from an adjacent office could place plywood and filing cabinets against the walls to make access difficult.

Cost is an important factor. A business should weigh the cost against the potential loss, say experts. If you stand to lose only $50 worth of merchandise at a crack, installing an expensive security system will not be cost-effective.

Guards may provide the ultimate in security, but hiring them entails major expense. However, they do not have to work full-time. Private security firms can supply roving guards who check premises periodically.

For most businesses, security means intrusion-detection systems: ultrasonic, microwave or infrared.

An ultrasonic system sends sound waves into an area, just as sonar sends sound waves into a body of water.

If someone comes into the sound waves' field, "the sound goes up in pitch, and when he goes away, the sound goes down in pitch," explains Albert S. Janjigian, vice president and general manager of Aritech Corporation in Framingham, Mass. This change in pitch, or frequency, will be regis-

BILL KROGER *is a Washington-based free-lance writer.*

tered by the ultrasonic detector and will set off an alarm. A typical wall-mounted ultrasonic detector will send waves out into an area about 15 feet deep and 25 to 30 feet wide at its widest point.

One drawback is that air movement can trigger an alarm. The system can be adjusted to compensate for that, but it may have to be adjusted so much that its effectiveness as an intrusion-detection device becomes questionable.

A microwave system is also triggered by a change in frequency. It can cover a large area and is especially good outside or in big buildings like warehouses. Microwave systems can cover areas 100 or more feet deep and 10 to 14 feet wide.

Microwave is not sensitive to air movement or noise, but it penetrates walls and can be set off by activities outside the area being protected. Metal objects like filing cabinets can reflect the waves, thus making it difficult to install the system in some places.

An infrared system, which covers an area about 25 feet deep, measures changes in heat. An intruder's body heat causes the sensor to register a change, and this sets off an alarm.

One drawback of infrared is that the sensor may register a change in heat from causes not intended to be registered, such as the sun shining in a window. This could set off an alarm.

The right system for a given business depends on the size of the area to be covered, whether air movement within the business is great and whether the facility contains a large or small number of metal objects.

A SYSTEM FOR a small business with a relatively small area to cover will cost about $1,500. Some businesses may need to cover only a small portion of their premises—a pharmacy's drug counter, for example.

Security experts advise that a business operator who wishes to increase security should talk to at least three security firms before choosing a system.

Experts also say businesses installing security systems too often go with only one system—an intrusion-detection system, perhaps, or locks that cause an alarm to sound when a magnetic contact is broken—when a mixture of systems often would be best for overall security.

For example, a business installing only magnetic locks on doors and windows might have thin walls that can be penetrated. In this case, the magnetic locks would prove worthless. But a mixed system that included an intrusion-detection sensor would pick up the intruder once inside, triggering an alarm.

Many other security devices are available. For example, mirrors placed in strategic locations can be an excellent crime deterrent.

Security mirrors greatly increase a store clerk's ability to monitor merchandise shelves, and they are relatively inexpensive.

Another important security consideration: keys and key control. If an employe has access to keys that will open a business' doors or a secure area, and that employe quits or is fired, experts advise changing those locks.

Key systems and locks are available that make this simple and relatively inexpensive. Hotels, for example, increasingly are converting to a computerized system that enables them to change lock combinations easily.

The initial cost for such a system usually is higher than for a conventional system, but if changing lock combinations is an important part of security, the long-term cost is small.

An additional security option centers on fixed-frame (still picture) cameras or continuous-camera (videotape) monitors.

This option, experts say, offers two primary advantages: One is deterrence; signs warning that a business is being monitored by cameras may cause would-be robbers to change their plans. The second advantage is that photographs can help to identify individual criminals and aid in prosecution.

Dan Gimbel of D/B Cameras, a division of American Electronics, Inc., of Fullerton, Calif., says a fixed-frame system costs about $800. (Large systems like those used in banks can cost $1,500 or more.)

A continuous-camera monitor system costs about $800 for the camera and $3,500 for the video recorder, says a spokesman for Pelco Sales, Inc., of Fresno, Calif. This does not include installation costs. But, adds the spokesman, more than one camera can be connected to a monitor, reducing the per-camera cost of an expanded system.

Professionals say that any security system should be installed with a view toward potential expansion of the business and thus the security system. Not all security equipment on the market is compatible, and a system needed for a larger area might differ from an existing system. Thus, installing a system that will be compatible with another may prove beneficial in the long run.

Police and private security professionals are available to help business operators plan what is best for a business.

The effort and cost expended will vary, but the payoff can be great. □

To order reprints of this article, see page 69.

Cutting Robberies in Half



PHOTO: DAVID WOODDELL

Using fewer signs on store windows was one way 7-Eleven cut robberies.

The 7-Eleven chain, which has more than 7,300 stores nationwide—95 percent of them open 24 hours—was experiencing a large and increasing number of robberies.

In 1976 a Los Angeles consultant was called in to put together a security program.

The company has made a number of security changes in its stores since then, including adding drop safes in which cash is secured until it can be removed. Only $30 in cash is kept available at any given time. Further, notices of this reduction of available cash were posted prominently in stores.

The stores reduced the number of advertising signs on windows, thus opening them to a clearer view from outside. All 7-Eleven employes were required to wear bright orange smocks, alerting anyone outside that a person behind a counter without such a smock should not be there and that possibly a robbery was taking place.

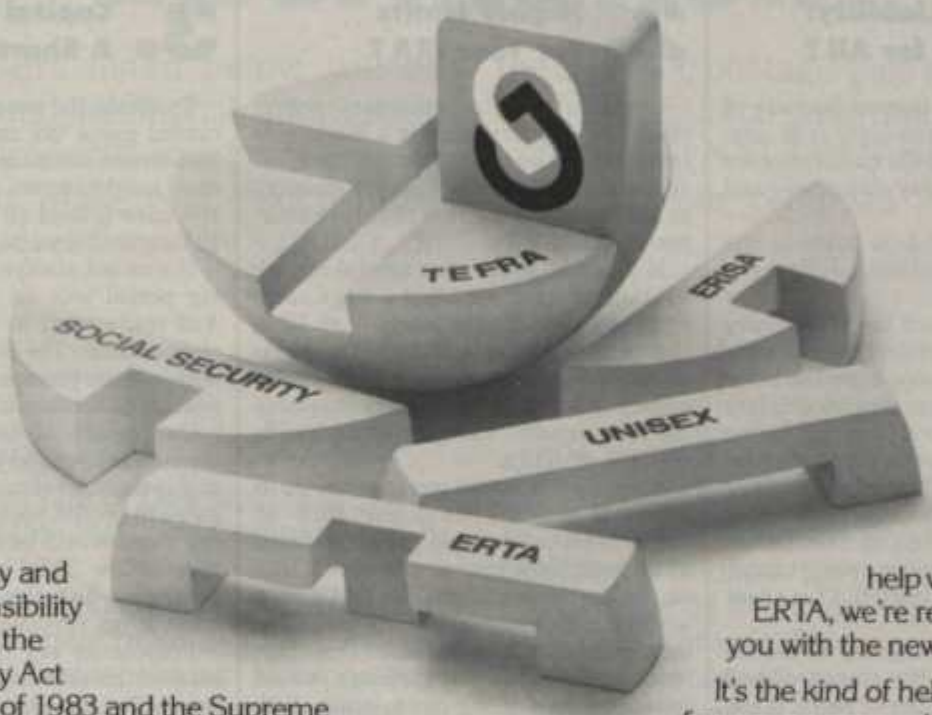
In addition, an extensive security education program was started for all 7-Eleven employes.

Since 1976, the number of robberies in 7-Eleven stores nationally has dropped 55 percent.

"Our crime prevention program has done excellent things for us," says a spokesperson.

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Where I Stand

1. Product Liability: One Law for All?

When someone is injured because of use of a product nowadays, it is anybody's guess whether the maker or seller can be required to pay damages—and how much.

A business can be held liable in one court and not another. Judgment amounts vary wildly.

True, more than half the states have passed laws setting product liability standards, but no two states have the same rules. Result: a nightmare of uncertainty and legal expense for a company facing accusations of negligence in manufacturing or in warning of hazards.

Lawyers must extensively research individual judges' opinions and state standards. For every $6 paid in product liability damages, it is estimated, $7 is spent on legal costs.

A bill pending in Congress would set national product liability standards and limit liability in a number of ways. It has attracted wide support in the business community, though there is some disagreement on details.

Opponents say that it would be an infringement on states' and consumers' rights, however.

Should there be one law on product liability for the whole country?

2. Higher Limits For Your IRA?

Contributions to individual retirement accounts are making a major contribution to the pool of funds for needed business investment in this country as well as to the welfare of future retirees.

Millions of Americans are taking advantage of a law enabling a wage earner to put up to $2,000 yearly in an IRA, or a total of $2,250 in IRAs of the worker and a nonwage-earning spouse. The money is deducted from current income for tax purposes and grows tax-free in the IRA or IRAs.

A House bill would increase the do-it-yourself multibillion-dollar flow of funds to IRAs. It would permit addition of up to $1,750 a year to a worker's IRA or, in any combination, to IRAs of a worker and nonworking spouse. This money would not be deducted from current income, but its earnings would grow tax-free along with other IRA earnings.

Opponents say a deficit-ridden nation cannot afford the loss of taxes. Proponents say the plus for the economy in added investment funds would outweigh any minuses.

Should $1,750 in nondeductible contributions to IRAs be permitted?

3. Capital Gains: A Shorter Term?

To obtain the benefit of the long-term capital gains tax rate—a maximum of 20 percent compared with the 50 percent maximum on short-term gains—you have to hold an investment at least 12 months before selling.

It was not always this way. The holding period was six months until 1976. And many want to see a return to the shorter term. The Senate Finance Committee three times has reported out legislation to accomplish the change.

One result, of course, would be increased selling and buying of securities and other investment media as the gates to profits open earlier. Opponents say there would be danger of too much speculation. They also decry the proposal as a help-the-rich move and as a loser of tax revenue.

Proponents say revenue from an increased investment pace would more than offset the loss. They also say a six-month period would hardly encourage in-and-out speculation but would be fairer to investors in many tax brackets, thereby attracting more funds to the stock market, and would improve allocation of capital.

Should the long-term capital gains period be cut to six months?

You can now respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Minimum Wage, Pension and Cargo Issues

Most readers took the negative view in answers to all three Where I Stand questions asked in November: Should the minimum wage be increased again? Should private pension funds be invested for social purposes? Should more cargo have to be shipped in U.S.-built vessels?

On the first question, 94.1 percent voted against efforts to get Congress to raise the minimum wage—$3.35 an hour since the start of 1981— or index it to the average manufacturing wage. In favor were 5.3 percent of respondents, and .6 percent were undecided.

The tally on the second question—involving proposed changes in federal law that would enable private pension funds to advance assorted causes through their investments, accepting smaller returns and larger risks—was 91.7 percent no and 4.3 percent yes. An even 4 percent were undecided.

Results on the third question were a bit less lopsided: 69.4 percent voted no and 17.6 percent yes. Thirteen percent were undecided. The issue: passage of cargo preference legislation, which would require that an increasing share of American firms' cargo to and from this country be carried in U.S.-built and -manned ships.

More than 2,200 readers took part in the poll. Results will go to appropriate government decision makers.

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PHOTO: JON SOLEM—CAMERA HAWAII

Their firm is in Hawaii, but Mary and Bill Foster aim their classy leisure wear at a market a long way off.

They Have Designs On Mainlanders

Hawaii. Land of swaying palm trees, volcanoes and more than 100 manufacturers of resort wear, primarily for women.

The largest of these manufacturers, unlike the others, does not cater to the residents of Hawaii and to its thriving tourist business but concentrates instead on a market that is thousands of miles away—the mainland.

Malia International is run by a husband and wife team, William and Mary Foster; he is president, she is executive vice president and head of design.

That they have penetrated the mainland market, and done so successfully for 23 years, is a testament to their formidable teamwork and to a management philosophy that embraces their employes as equal partners in the company.

The Fosters met as students at Stanford University. After college, Bill, a native of Hawaii, did well with his own textile converting (design imprinting) and distribution firm in Honolulu. From there, the Fosters thought it would be an easy transition to the garment manufacturing side of the business. (When Bill acquired a garment company, he asked Mary, who had already joined him in matrimony, to join him as his design chief. She readily accepted.)

But in the first year, the Fosters had a brush with financial disaster. Its cause, Bill says, was "abysmal ignorance" of the financial and production ends of the business.

"I had stepped out of a fairly successful business and thought I was pretty hot stuff. To have this happen was quite an experience," he recalls.

Mary had her troubles, too. "I knew nothing about what my part of the business was. I lacked direction, not knowing what we were going to make or what we were going to use to make it." And there were mistakes. Case in point: 3,000 yards of silk ordered for hundreds of dresses they thought a major retailer wanted to buy. The retailer took only 12.

What pulled the Fosters through? In Mary's view, Malia's unique textile designs—classy, vivid prints. "We have to design a product that is different because the same dress made here is more expensive than one made on New York's Seventh Avenue. We're far from our suppliers and our market, and we have higher labor costs."

In Bill's opinion, success emerged from "luck and some reasonably good planning." Many Hawaiian entrepreneurs have failed to crack the mainland market because they have refused to tailor their products to mainland customers' needs, he maintains. Malia's success was boosted considerably by the fortuitous hiring of Hazel and Morey Goldstein (now retired), a Los Angeles couple with experience in the garment business. They launched the Fosters on the mainland by opening a West Coast office to sell Malia fabrics and gave them invaluable guidance along the way.

Malia (pronounced muh-LEE-uh; it is the equivalent of Mary in Hawaiian) fashionwear brought in more than $10 million last year—60 percent of the company's sales.

The firm is also involved in textile conversion for other garment manufacturers. It has a uniform division, where it creates a certain look for an airline, bank or hotel without losing the distinctive Malia identity. And it owns uniform stores in Honolulu.

Keeping abreast of the industry means heavy travel—Mary to the mainland on promotional tours and to Europe to scout fashion trends, and Bill to the Far East to watch over the spinning and printing of the cloth as well as to search for new fabrics.

The Fosters speak of "finely tuned balance" as crucial to their business achievements, agreeing that financing, manufacturing, marketing and design are all equally important. The respect they feel for each other's strong points is extended to their 200 employes. They point to low turnover as evidence that the approach works.

"I would say that less than 50 percent of a person's satisfaction is income," Bill explains. Treatment of employes by their immediate bosses and involvement of employes in "the whole manufacturing process from beginning to end," he believes, is more significant.

Another factor: Through the firm's profit-sharing plan, the employes own the land on which the factory, a converted bowling alley, rests.

"I call them my landlords," jokes Bill. But he adds: "I make no bones about the fact that I'm in business to make a profit. And when we make it, the employes know they get more."

Two of the Fosters' four children hold management positions in the firm. But Bill declares: "It is crystal clear in everyone's mind that the top management jobs are up for grabs—not just reserved for family members. What's good for the business is absolutely dominant. My children understand and respect that."

—Mary-Margaret Wantuck

Making Memory Picture Perfect

When Lorne C. Ray was 20 years old, he says, he was making $6,000 to $7,000 a month selling insurance. But once, when he was 22, he had to admit to his wife that they had only $12.

He had put all their resources into starting a new business—a service that videotapes a homeowner's entire household inventory for insurance purposes. "That's how close an entrepreneur will run things; it shows you how much of a commitment you have to make," says Ray.

Fortunately, the depletion of family finances was only temporary. Early last year, the Portland, Ore., entrepreneur's MBI Development Corporation began franchising the idea. Revenue by year's end was expected to be $1.5 million. Ray, now 25 and chairman of the board, is looking for $3 million this year and believes that expansion and added services should bring annual sales of $20 million by 1988.

Impatient with book learning, Ray quit college after a year and began to sell insurance for one of the major underwriters. Less than 18 months later, he established his own agency, which he has since sold.

He says it made him nervous when he saw that most homeowners would not take the time to make an inventory of their possessions. Such an inventory is often needed to document a loss when a claim is filed. Although he had no actual liability, he felt a personal responsibility to get his customers to make such lists. Then one of Ray's clients lost a $300,000 house to a fire and had to settle for far less than the contents were worth—50 cents on the dollar, Ray recalls—because he had no inventory and could not remember everything he had.

The incident inspired Ray to start MBI. The initials themselves are a marketing tool calculated to make a customer ask what they stand for: Memory Bank Inventory. The firm sends a "videographer" into the client's home to tape the household contents (including such details as labels inside suits and on the backs of china plates); the tape is narrated by the homeowner, who provides information about when items were purchased and their original price. The finished tape is given to the client for storage in a safe deposit box.

The idea is not new—such services have been available on a small scale. But Ray's approach is different on several counts. For one thing, he works through insurance agents who contact their clients on their own letterhead, recommending MBI. When a client buys the service, the insurance agent gets a commission.

Another difference is that Ray markets the service on a mass scale. MBI has already let more than 100 "MBI International" franchises in the United States and Canada. Franchisees pay about $30,000 for the initial franchise fee, equipment and start-up costs, plus a 7 percent royalty on gross revenue thereafter. The cost to a client for an average-sized home is about $200; each taping costs a franchisee about $50. "There's quite a margin," Ray notes.

Ray envisions branching into the taping of weddings, wills, sporting events, Christmas messages and "heritage" programs, in which grandparents might tape their life story for their family.

There is only one added service so far, and it is free to the customer. If there are children in a family, the videographer will spend an extra 10 minutes or so getting them on the tape for a permanent record, too. Ray, who has a 4-year-old daughter and a 2-year-old son, calls it a "small contribution" to the problem of missing children recently dramatized by the television movie *Adam*.

"If we could save one child's life, it is worth more than anything else I could do," Ray says.

Does Ray have any bits of wisdom to offer aspiring entrepreneurs?

"Surround yourself with very successful people and oftentimes people that are much sharper than yourself," he responds. He calls this "hiring up."

And, he advises, make friends—real friends—including your bankers, attorneys and accountants. Friends see you through the rough spots, he explains; they are the ones who might drop $1,000 on your desk and ask if it will help. Friends have done that for him more than once, he says.

There is evidence that Ray follows his own advice. In November, he hired Larry Wheeler, 49, as president of MBI. Wheeler was president of the bank that gave MBI its first loan.

—Sharon Nelton

Portland entrepreneur Lorne C. Ray (center) took an existing idea—videotaping household possessions for insurance purposes—and franchised it nationally.



PHOTO: JIM THOMPSON

His Businesses Are Flying High

What do airline pilots do in their spare time?

Walter E. Hoffman, 61, a retired Pan American jumbo jet captain, will tell you that they prepare for the day when they will not be able to fly for the airlines any more—either because they cannot pass the twice-yearly physical exam or because they have reached 60, mandatory retirement age for pilots.

Wally Hoffman got ready for retirement in 1952 by purchasing a 78-acre farm for $18,000 in the Pocono Mountains near East Stroudsburg, Pa., and establishing Birchwood, a resort for couples only. Over the next 13 years, he enlarged his holding to 400 acres, building 60 luxurious chalets and such amenities as rifle and archery ranges, a lake for water sports and even a small

PHOTO: B.J. HOFFMAN



Wally Hoffman's "retirement" from Pan American consists of running a resort and a small airline.

airstrip with airplanes and gliders for flying lessons or sightseeing.

With profits from the thriving resort, Hoffman started a flying service at nearby Mount Pocono Airport, featuring light aircraft charters, rentals and flying lessons. Then he discovered that more and more visitors to the Pocono area did not want to drive to the larger cities for their airline connections.

He bought two aircraft, incorporated Pocono Airlines in 1965 and began service between Mount Pocono, Philadelphia and Newark. Soon he moved his operations to the larger Wilkes-Barre/Scranton Airport, where he built a large hangar for his growing aircraft maintenance requirements.

In 1968, Pocono Airlines became affiliated with Allegheny Airlines (now USAir), agreeing to feed passengers from small towns in the Northeast to Allegheny. As Allegheny's traffic grew and its aging propeller-driven fleet was upgraded to jets, it could not operate economically and safely from some smaller airports. Pocono, with added aircraft and a second hangar, provided service on routes vacated by the larger airline. In 1968, Pocono carried nearly 5,000 passengers; in 1982, the passenger count approached 100,000.

Three larger aircraft purchased or leased last year required adding a dozen flight attendants to the company roster. Hoffman's wife, Gail, who is a still-active flight attendant with Pan Am, became Pocono's vice president for inflight services. She trained the attendants herself.

How does Hoffman run two disparate but successful business ventures simultaneously?

"I search for and hire good people, tell them what I want them to do and let them do it," he answers. "I have no special management style. Most people want to do a good job, so I rely on that motivation and stay out of their way."

His quiet technique apparently works. "He means what he says about letting us alone to do our jobs," one employe confides.

Although he had to leave the Pan Am 747 cockpit in 1982 because he had turned 60, he continues to fly in his private fleet.

"I'd go back in a minute to flying the 747's if they'd let me," he says. "That's really the best job in the world!"

—C.V. Glines

They Discipline The Urge To Grow

Nestor and Nancy Fernandez were in Washington not long ago to receive an award on the 25th anniversary of the Small Business Investment Company program. Congratulated by an acquaintance, Nestor quickly said, "It is not an award to us; it is an award to the company."

The company is Digitron, Inc., a Dayton, Ohio, manufacturer and distributor of tools and dies, special machines and industrial supplies. Serving the automotive and aerospace industries, it has such clients as General Electric, Ford, General Motors, Rockwell International and Pratt & Whitney.

It is story enough that the couple founded the firm with $4,000 in 1976 and developed it into a sophisticated growth-oriented company with annual sales of more than $12 million. But the story behind the story is that in 1961, Nestor, then 19, fled Castro's Cuba to Miami accompanied by Nancy (his bride of 20 days) and by a brother, a sister and a cousin—all younger than he.

"Basically, I was head of the family," recalls Nestor.

In Miami, he washed dishes 60 hours a week and took machine shop courses at night. And in time, there was Nestor, Jr., first of three children. The family moved to Dayton in 1963 because Nancy had an uncle there, and Nestor began working in a tool shop.

Today Nestor is president of Digitron, and Nancy is treasurer. Though neither has a college degree, both have kept pace by taking university-level courses—he in engineering, math and design; she in accounting and computers.

Their road to success was made smoother when a GM engineer suggested Digitron could qualify as a minority supplier. They made effective use of that classification, receiving a $120,000 loan in 1977 from Motor Enterprises, GM's minority enterprise small business investment company ("We paid it back ahead of schedule," notes Nestor) and participating in minority supplier programs at GE and Ford.

But such programs only give minority businesses an opportunity to bid on a contract, Nestor says. Customers will drop you, he says, "if you don't deliver the goods."

"Be cheap," Nestor answers when asked the formula for success. "So many people who start a small business live beyond their means as soon as they become successful. If you have a small business and want to grow, you can't start reaping the harvest. You have to put it right back into the business."

The Fernandezes, who live modestly, pay some of their employes more than they pay themselves. "You have to invest in your people," explains Nestor.

Contrasts in the personalities of Nancy and Nestor may give the company a balance that contributes to its success. "She is very conservative, and I am not conservative at all," Nestor says, and Nancy agrees.

He thinks that the company could have grown much further by now, but she reins him in. Growing is nice, Nancy acknowledges, "but you don't always have the backup to do it. In the economic position we are in, you have to have time to regroup."

—Sharon Nelton

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Let It Snow!

You can take your fitness program indoors.

By Gabe Mirkin, M.D., and Mona Shangold-Mirkin, M.D.

ARE YOU one of the many people who exercise regularly in warm weather and then stop as soon as it turns cold? After a winter without exercise, you know how hard it is to get back into shape. When you resume exercising, your muscles get sore, you tire quickly and you are more likely to be injured.

The answer? Take to the great indoors, where you can exercise no matter how dark, cold or snowy it is outside. You can jog in place or on a small trampoline, ride a stationary bicycle, pull on a rowing machine or jump rope. For fitness, exercising 30 minutes three times a week is sufficient.



PHOTO: DAVID VALDEZ

Your foul-weather friends might include a rowing machine, an especially good choice if you suffer from back problems.

Jogging in place can be just as beneficial to your heart as jogging on the roads. You can even jog in place in your bare feet. The striking force of your foot on the floor—even a hard floor—is not as great as it would be if you were running on the road; therefore, you do not require the shock absorbency of special shoes. Since your body does not need to be driven forward, you should land on your toes.

When you jog in place, you will develop all of your muscles adequately, except the hamstrings in the backs of your upper legs, which are used to drive you forward. After a winter of jogging only in place, you will be more likely to injure your hamstrings when you resume jogging on the road in the spring.

If you like, you can jog on a rebounder. Rebounders are small trampolines that are about 3 feet in diameter and are raised about a foot above the ground. They cost from $75 to $250.

It is far safer to jog on a trampoline than to jump on it. Jumping transmits a great force from your feet to your hips and back. This can be dangerous for people with thin bones and back problems.

Jogging on a trampoline is safer than jogging on the road. A trampoline absorbs some of the force of your footstrike, so that you land with a force equal to less than half of your body weight. When you jog on the road, the force of your footstrike is three times body weight.

RIDING A STATIONARY bicycle is another good indoor exercise. Choose a bike that has a large heavy flywheel with a belt on the outside rim where the tire normally would be. The larger and heavier the flywheel, the more likely it is to continue moving smoothly when you turn up the resistance gauge. Good stationary bicycles cost from $250 to $2,000, but the very best do not cost much more than $400.

Set your seat at the proper height. A seat that is too high can hurt your back. One that is too low can hurt your knees. Place your heel on one pedal set at its lowest point. Then set your seat so that when you sit down, your knee barely starts to bend. Now pedal the bike. If your pelvis rocks from side to side, your seat is too high.

If you choose a rowing machine for your winter fitness, get one with a movable seat so that your total body will be involved. Your goal is to increase your blood circulation; if you use just your arms, your heart may not do enough work to become stronger.

When you row with a machine, you must move the seat back and forth with your legs. To develop resistance against your leg muscles, you must start each stroke by bending as far forward as you can and tilting your upper body forward.

Start each cycle by pushing your feet against the stirrups. This will move your seat backward. Then move your upper body backward and finish off by pulling on the oars with your arms.

Rowing is one of the best exercises to strengthen your back. Many people with back problems can use such machines, as long as they stop rowing immediately if they feel any pain. Expect to pay $100 to $250 for your machine.

Jumping rope is very demanding. You have to spin the rope at least 80 times a minute to keep it from tangling. This takes the same amount of energy as running a mile in 7 minutes and 20 seconds.

Any rope will do. To make sure yours is the right length, stand with both feet on the middle of the rope. The ends should just reach your armpits.

When jumping, land on your toes and do not jump more than an inch off the ground. Your toes will absorb the force of your footstrike much better than your heels. Since the rope comes back to the ground every three quarters of a second, jumping too high will leave you in the air when your feet should be on the ground.

Keep your knees bent to help absorb the force of your footstrike.

No matter what you do to keep fit, you should have an alternative indoor sport to help get you through injuries and foul weather.

Every marathon runner and every jogger can benefit from a stationary bicycle or a rowing machine. Every tennis player and golfer can enjoy a small trampoline or a jump rope. □

GABE MIRKIN, M.D., *is the author of* Getting Thin *(Little, Brown & Company).* MONA SHANGOLD-MIRKIN, M.D., *is assistant professor of obstetrics and gynecology at Cornell University Medical College.*

CONGRESSIONAL ALERT



Issues That Could Affect *Your* Business ... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
Budget	Votes cast by members of Congress guide future course of the nation's economic recovery, affect interest, inflation and unemployment rates.	Members of the House and Senate: Don't follow traditional election year buying binge; reduce level of federal spending to cut deficit.
Taxes	Length and strength of the recovery will be partially determined by the amount of money the government lets you keep.	Members of the House and Senate: Oppose any new taxing schemes offered under pretense of cutting deficit; cut spending instead.
National Industrial Policy	Supporters want expanded Big Brother role in allocation of credit, capital and economic planning; policy would guarantee increased federal role in areas traditionally reserved for free enterprise.	Members of the House and Senate: Help economy improve by reducing role of government in private sector rather than expanding it; vote for less government control and regulation, not more.
Hazardous Waste	Paper work burden on small business would be increased, causing higher overhead; the environment would not be significantly improved.	Members of the Senate: Vote for legislation requiring identical reporting and regulating triggers at 100 kg a month for generators of small quantities of waste.
Bankruptcy	Passage would increase pressure on consumers with adequate future income to avoid payment of debts legitimately owed; able people should pay.	Members of the House: Support effort to include consumer bankruptcy provision in bill; oppose giving special treatment to workers belonging to unions.
Natural Gas Deregulation	Present conditions unfair to business users, do not allow for free market system to operate efficiently or effectively, cause inequitable pricing, uncertain long-range supplies.	Members of the House and Senate: Now is the time to support total deregulation of all natural gas supplies and prices by a specific date, oppose recontrol efforts.
Export Administration Act	Increased domestic employment and reduced balance of payments deficit will result if Congress adopts plan to re-establish U.S. commitment as reliable trading partner.	Members of the Senate: Preserve contract sanctity, reduce controls on export products freely available from Free World countries, expand export markets.
Immigration	Smaller business could face excessive new paper work requirements if mandatory reporting provisions prevail.	Members of the House: Any bill passed by Congress must include the voluntary paper work provisions currently in the House version.
Telephone Rates	During early second session action, Congress may institute plan forcing business to pay the entire subsidy for selected telephone users in selected geographic areas of the country.	Members of the Senate: Oppose sticking business with the entire subsidy check; an equitable telecommunications network following FCC guidelines will provide a solution.

Let's Hear It For The Supply-Siders

Economic projections for 1983-84 that appeared in this magazine a year ago were widely recognized as the most optimistic of all the major forecasts used in business planning.

The outlook, prepared by the forecast section of the U.S. Chamber of Commerce, also proved to be the most accurate.

Chamber forecasters, for example, predicted 3.6 percent growth in gross national product in 1983, while most other private economic predictions averaged 2.5. The Congressional Budget Office anticipated 2.1.

The actual growth for 1983 will be approximately 3.5 percent when the final calculation is made.

Chamber forecasters also anticipated the sharply accelerating pace of the recovery now under way.

What enabled them to be so accurate? Basically, it was deep confidence in the supply-side economic policies of President Reagan, at a time when even his own Council of Economic Advisers was having strong reservations about the strength and speed of the recovery.

After all, business has been saying for decades that sustained economic health could be achieved only through tax policies that encouraged business investment and let consumers keep more of their incomes.

As another new year begins, the outlook for strong, low-inflation economic growth is even better than it was a year ago (see page 20). The biggest challenge will be keeping the tax-and-spend bloc on Capitol Hill from sabotaging the policies that have brought about this happy prospect.

Private Initiative And Health Costs

There is widespread agreement that we have to come to grips with the problem of medical care costs. Their alarming upward spiral cannot be allowed to continue unchecked.

But there is little sign of national consensus on specific steps to be taken. Some believe the answer would be found in a national health care system financed entirely by the government. Others believe that government price controls imposed on health care providers would end inflation in medical costs. Many of the various other plans offered as solutions also look to a major role for the federal government.

But more and more businesses, aware that government intervention usually makes such problems worse, are realizing that they can begin to attack the health care cost problem through their own initiative and self-reliance.

An account of how one firm has launched a determined effort to bring its medical costs down appears on page 50. The author, Richard G. Wardrop, benefits manager for ALCOA, says his company's experience shows that business "can cut its costs substantially, without a change in the system."

Other employers, whether large or small, should find valuable suggestions in the article. It provides yet another example of how private sector initiatives can cope with problems the government is ill-equipped to solve.

The Legacy of A Business Champion

Business lost a courageous and effective champion with the recent death of R. Hilton Davis.

"Dixie" Davis was vice president for legislative and political action at the U.S. Chamber of Commerce. He held one of the national capital's most strategic positions in terms of serving the private sector's interests in the lawmaking process.

He was in the forefront of the continuing battles to free the enterprise system from the destructive effects of excessive taxes, spending and regulation. One of his hardest, longest—and most successful—struggles was in behalf of the 1981 tax relief program that marked a major turning point in the economic history of the United States.

Dixie Davis was totally committed to the principle that personal and economic freedoms are inseparable, with both essential to the survival of this nation.

The extent to which he was successful in convincing elected officials of the soundness of that belief is his enduring legacy. □

How to master a mailing list in 4 easy steps.

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